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Ontario Study of the Service Sector

BACKGROUND PAPERS

ONTARIO STUDY OF THE SERVICE SECTOR
BACKGROUND PAPERS

Government of Ontario
Ministry of Treasury and Economics
December 1986

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October 31, 1986

The Honourable Robert Nixon,
Treasurer of Ontario,
Queen's Park,
Toronto.

Dear Mr. Nixon:

In October, 1985, I was asked to undertake a study of the service sector in Ontario, and to report my findings to you within a year.

The enclosed Background Papers constitute a second volume of the final report of that study.

The first volume, also submitted to you today, presents analysis and recommendations regarding a strategy framework for enhancing employment and output growth in our new economy, the challenge of free trade, and other service sector issues and opportunities. This second volume examines the role of women and youth in the service sector, provides profiles of 18 service sector industries, and outlines service sector export opportunities.

Yours sincerely,

George Radwanski

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DEMOGRAPHIC PROFILES

WOMEN AND THE SERVICE SECTOR

LABOUR FORCE PARTICIPATION

The growing role of women in the Ontario economy in general, and the service sector in particular, can be readily seen in labour force data over the past four decades. The percentage of the Total Economy labour force which is female increased from 20.1 per cent to 41.9 per cent between 1941 and 1981, while the percentage of the Total Service Sector labour force which is female increased from 31.4 per cent to 47.3 per cent. (See Table 1.)

In 1981 the Total Service Sector female labour force percentage was almost double that of the Primary Sector (25.2%) and substantially larger than that of the Manufacturing Sector (28.8%). It was 5.4 percentage points higher than the figure for the economy as a whole.

Within the Service Sector, the Finance, Insurance and Real Estate (F.I.R.E.) and Community, Business and Personal Services (CBPS) subcomponents had the largest female labour force percentages, 61.0 per cent and 60.6 per cent, respectively, followed by Trade and Public Administration, with 45.4 per cent and 38.2 per cent, respectively.

When we look at the absolute numbers of women in different service areas, rather than the percentage of the labour force accounted for by women, additional interesting facts come to light. Thus, over the period 1941 - 1981, most women in the labour force were in CBPS (774,490), followed by Trade (337,805); in 1981 these subcomponents of the Service Sector accounted for 41.8 per cent and 18.3 per cent, respectively, of the Total Economy female labour force (1,850,650). (See Table 2.) Overall, Total Service Sector females (1,495,670) accounted for 80.8 per cent of the Total Economy female labour force in 1981, up considerably from a 1951 low of 68.6 per cent.

The highest growth rates in the female labour force have occurred in Construction and F.I.R.E. (3,696.9% and 1,088.6%, respectively, between 1941 and 1981). (See Table 3.) However, these growth rates were largely due to low levels of female labour force participation in 1941; this was especially true of Construction. Conversely, the largest subsectors in 1941, CBPS and Trade, experienced the lowest growth rates. In absolute terms, however, most growth occurred in CBPS and Trade: they accounted for 49.8 per cent and 22.9 per cent, respectively, of the increase in the Total Service Sector female labour force between 1941 and 1981.

EMPLOYMENT

The important role of women in the service sector is also evident in employment data. These show that, in the Total Service Sector in 1985, 49.1 per cent of employees were female, a substantially larger percentage than in either the Manufacturing (28.7%) or Primary (25.8%) Sectors. (See Table 4.) Women accounted for 43.5 per cent of employment in the Ontario economy as a whole.

The data also show that 82.4 per cent of female employees in Ontario in 1985 worked in the Service Sector, compared with only 65.8 per cent of men. Almost half of the working women in Ontario (44.6%) were employed in CBPS; another 18.3 per cent were employed in Trade. The third largest employer of women, however, was the Manufacturing Sector (15.1%).

Special employment data from Statistics Canada provide employment figures, in terms of the T4 slips issued for income tax purposes, for each three-digit Standard Industrial Classification (SIC) category for 1983.[1] These data show that more T4 slips were issued to women than to men in the following Major Groups: Retail Trade, F.I.R.E., Education and Related Services, Health and Welfare, Services to Business Management, Personal Services, and Accommodation and Food Services. (See Tables 5A and 5B.)

PAYROLL DATA

The Statistics Canada Special Data also provide information on payrolls. The highest average payroll figures for females are found in Communications ($17,937) and Other Utilities ($17,217), while the lowest average figures are found in Amusement and Recreation ($3,861) and Accommodation and Food Services ($2,986). It is noteworthy that the highest and lowest average payroll figures for males are found in exactly the same Major Groups, although in reverse order in the former case. However, average payroll figures for females are lower than those for males in virtually every Service Sector Major Group. Overall, the average payroll figure for females in the Service Sector is 60 per cent of the average payroll figure for males in the Service Sector.

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[1] Statistics Canada, Business Microdata Integration and Analysis, Employment, Payroll and Average Earnings by Industry Division, Firm Size, Age and Sex, 1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study. (Hereafter referred to as the Statistics Canada Special Data.) One or more related three-digit SIC categories constitute a Major Group.

FULL-TIME AND PART-TIME EMPLOYMENT

It is important to note that 29.8 per cent of female employees in the Service Sector are part-time workers. This stands in sharp contrast to the situation in the Manufacturing Sector, where only 6.6 per cent of women employees work part-time. (See Table 6.)

Within the Service Sector, the largest percentages of female part-time employees are found in Trade (39.3%), CBPS (32.1%) and Construction (32.0%). However, only the first two of these are important in terms of absolute numbers of part-time employees.

The percentages of female part-time employees differ substantially from the percentages of male part-time employees. In CBPS, the percentage of female part-time employees (32.1%) is 2.1 times that for male part-time employees (15.2%). At the other end of the spectrum, in Construction, the female percentage is 9.4 times the male percentage (32.0% versus 3.4%). In the Service Sector as a whole, the ratio is 2.9 times (29.8% versus 10.2%) while in the overall economy it is 3.4 times (26.3% versus 7.7%).

In absolute terms, there are more female part-time employees than male part-time employees in virtually every major sector of the economy.

OCCUPATIONAL CATEGORIES

Labour force data for 1981 also show that in most economic sectors most women work in clerical and related jobs.[1] The only exceptions are Agriculture, where most women work in "farming, horticulture and animal husbandry", and CBPS, where most women work in "service occupations". In contrast, the predominant occupations for men tend to be more closely identified with the economic sectors in which they work, e.g. "product fabricating, assembling and repairing" in Manufacturing and "construction trade occupations" in Construction.

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[1] See Statistics Canada. 1981 Census. Population: Labour Force - Industry by Occupation. (Cat. 92-923, Volume 1 - National Series). Table 1.

WOMEN ENTREPRENEURS

Another important aspect of women's involvement in the service sector is their entrepreneurial role in the small business sector. While a number of studies have been done on the importance of small business to economic growth and job creation, there has been relatively little discussion of the particular contribution of small businesses run by women. The Canadian Association of Women Business Owners is not aware of any studies or surveys dealing exclusively with women's businesses.

Only occasional references to women entrepreneurs are made in the more general studies on small business. Thus, in one study by the Small Business Secretariat of the Department of Regional Industrial Expansion,[1] it was noted that 29.0 per cent of business proprietors in Canada in 1980 were women. This percentage was almost double the 1970 figure of 14.8 per cent.

An exception in this regard is a survey, conducted by the Ontario Ministry of Industry and Trade (MIT)[2], of persons registering new businesses in Ontario in 1984. This study found that higher percentages of female entrepreneurs started up small manufacturing and retail firms (10.6% and 29.8%, respectively) than was the case with male entrepreneurs (7.5% and 20.8%, respectively). On the other hand, a smaller percentage of female entrepreneurs started up service (community, business and personal services) firms (59.6% compared with 71.7% of male entrepreneurs). (See Table 7.)

In absolute terms, women started up fewer businesses than men in all three categories. Women entrepreneurs also started up substantially more service firms than other types of business; in the survey, there were twice as many service firms started by women as retail outlets (124 versus 62).

The MIT survey also found that, compared with male respondents, a slightly larger percentage of female respondents: 1) were planning on working out of their homes; 2) were going into businesses in which they had no experience; 3) had post-secondary education; and 4) were planning to use their own savings

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1. Statistical Profile of Small Business in Canada, 1983.

2. Survey of Small Business Registrants, 1984. Ontario Ministry of Industry and Trade, Small Business Branch.

rather than go to a lending institution. On the other hand, a lower percentage of women: 1) were planning to invest more than $5,000; 2) had prepared marketing and/or financial plans; 3) were in the "under 24" age category; and 4) were planning on hiring employees at the outset.

There also appears to be some agreement that business start-ups run by women have a higher success rate than those run by men. One study[1] found that of nearly 2,000 new businesses sampled in 1978, only 25 per cent of the male-owned firms were still operating three years later, while 47 per cent of the female-owned ventures survived. Another source[2] indicated that the failure rate of first-time female entrepreneurs is up to 50 per cent lower than that experienced by first-time male entrepreneurs.

A number of factors have been cited as possible explanations for this differential. Thus, the female owners of surviving businesses were found (in the Laventhol & Horwath study) to take between six and ten months to research and prepare for their new business ventures, while the owners of failed firms took less than four months to prepare for their start-ups. Secondly, approximately 90 per cent of the successful entrepreneurs used professional advisors such as lawyers and accountants in setting up their businesses, compared with only 25 per cent of the unsuccessful entrepreneurs. Thirdly, some 70 per cent of successful female entrepreneurs attended courses or read business publications on a regular basis, compared with only 10 per cent of the failed entrepreneurs. Finally, the successful entrepreneurs had more modest expectations of initial income from their businesses, tended to be better financed with a lower overall debt/equity ratio, tended to be better educated, and tended to be older.

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[1] Study by Jerry White, Laventhol & Horwath, cited by Jerry White in "The Rise of Female Capitalism - Women as Entrepreneurs", Business Quarterly, Spring, 1984. The qualitative discussion in the following paragraph is also derived from this source. It was suggested to us that the findings of this study be used with caution.

[2] "Pay Equity" — In the Eye of the Beholder, Canadian Organization of Small Business, March 27, 1986, p.10.

Table 1

Women as a Percentage of Labour Force, By Sector, 1941-1981

	1941	1951	1961	1971	1981
Primary Sector	1.8	4.8	11.2	20.9	25.2
Manufacturing Sector	17.6	20.5	21.6	24.5	28.8
Construction	0.8	2.0	3.0	5.8	10.0
Transportation, Communications and other Utilities	8.0	13.5	15.2	18.5	25.2
Trade	24.1	30.8	32.5	39.3	45.4
Finance, Insurance and Real Estate	31.9	46.6	47.9	52.7	61.0
Community, Business and Personal Services	61.4	54.5	58.8	57.8	60.6
Public Administration	23.3	20.7	21.6	29.0	38.2
Total Service Sector	31.4	30.4	35.2	40.5	47.3
Total Economy	20.1	23.6	28.9	35.9	41.9

Source: Statistics Canada. 1981 Census of Canada, Population: Labour Force - Industry by Demographic & Educational Characteristics, (cat. no. 92-921, vol. 1 - national series). January, 1984.

1971 Census of Canada. Industries: Industries by Sex for Canada. Regions & Provinces, (cat. no. 94-740, vol. III - Part 4, bulletin 3.4-3). December, 1974.

1961 Census of Canada. Labour Force, Industries by Sex. (cat. no. 94-518, vol. III - Part: 2). May, 1963.

1951 Census of Canada, Labour Force, vol. IV. March, 1953.

1941 Census of Canada, Gainfully Occupied by Occupations, Industries, vol. VII. December, 1944.

Table 2

Women in the Labour Force
Absolute Numbers and Percentage Distribution
By Sector, 1941 - 1981

	1941	1951	1961	1971	1981
Primary Sector	5,923	12,240	25,870	37,690	50,860
	(1.9%)	(2.8%)	(3.8%)	(3.4%)	(2.7%)
Manufacturing Sector	83,636	125,910	138,660	200,895	304,120
	(26.7%)	(28.6%)	(20.4%)	(18.3%)	(16.4%)
Construction	655	2,610	4,573	11,920	24,870
	(0.2%)	(0.6%)	(0.7%)	(1.1%)	(1.3%)
Transportation, Communications and other Utilities	8,272	21,392	29,709	41,175	80,555
	(2.6%)	(4.9%)	(4.4%)	(3.8%)	(4.4%)
Trade	46,068	82,363	120,589	195,435	337,805
	(14.7%)	(18.7%)	(17.7%)	(17.8%)	(18.3%)
Finance, Insurance and Real Estate	13,380	28,736	47,151	81,980	159,035
	(4.3%)	(6.5%)	(6.9%)	(7.5%)	(8.6%)
Community, Business and Personal Services	140,929	143,054	274,790	454,775	774,490
	(45.0%)	(32.5%)	(40.4%)	(41.5%)	(41.8%)
Public Administration	14,438	24,171	39,172	71,885	118,915
	(4.6%)	(5.5%)	(5.8%)	(6.6%)	(6.4%)
Total Service Sector	223,742	302,326	515,984	857,170	1,495,670
	(71.4%)	(68.6%)	(75.8%)	(78.2%)	(80.8%)
Total Economy	313,301	440,476	680,514	1,095,755	1,850,650

Source: See Table 1.

Table 3

Growth in Service Sector Female Labour Force,
Absolute and Percentage Terms, 1941-1981

	Absolute Growth	Share of Total Service Sector Growth	Percentage Growth
		(%)	(%)
Construction	24,215	1.9	3,696.9
Transportation, Communications and Other Utilities	72,283	5.7	873.8
Trade	291,737	22.9	633.3
Finance, Insurance and Real Estate	145,655	11.5	1,088.6
Community, Business and Personal Services	633,561	49.8	449.6
Public Administration	104,477	8.2	723.6
Total Service Sector	1,271,928	100.0	568.5

Source: Statistics Canada. 1981 Census of Canada, Population: Labour Force - Industry by Demographic & Educational Characteristics, (cat. no. 92-921, vol. 1 - national series). January, 1984.

1941 Census of Canada, Gainfully Occupied by Occupations, Industries, vol. VII. December, 1944.

Table 4

Employment by Sector, 1985*

	Female		Male		Total	Female as
	(000s)	%	(000s)	%	(000s)	% of Total
Primary Sector	47	2.5	134	5.4	182	25.8
Manufacturing Sector	289	15.1	718	28.8	1,007	28.7
Construction	25	1.3	206	8.3	231	10.8
Transportation, Communications & Other Utilities	76	4.0	233	9.4	309	24.6
Trade	351	18.3	410	16.5	761	46.1
Finance, Insurance and Real Estate	154	8.0	101	4.1	255	60.4
Community, Business and Personal Services	854	44.6	513	20.6	1,367	62.5
Public Administration	117	6.1	174	7.0	291	40.2
Total Service Sector	1,577	82.4	1,637	65.8	3,214	49.1
Total Economy	1,914	99.9	2,489	100.1	4,402	43.5

Source: Statistics Canada, Catalogue 71-001 Monthly, The Labour Force, December 1985, Table 72.

* Numbers may not add due to rounding.

Table 5A

Employment and Average Payroll for Females, by SIC Major Groups, 1983

Major Groups	Employment (T4 Slips) (#)	Payroll ($000)	Average Payroll ($)
Construction	36,481	287,281	7,875
Transportation	44,987	424,995	9,447
Communications	31,018	556,377	17,937
Other Utilities	11,380	195,926	17,217
	87,385	1,177,298	13,473
Wholesale Trade	97,191	864,361	8,893
Retail Trade	398,851	2,157,616	5,410
	496,042	3,021,977	6,092
Finance Industries	135,931	1,432,969	10,542
Insurance Carriers	32,134	473,315	14,729
Insurance Agencies and Real Estate	58,079	568,306	9,785
	226,144	2,474,590	10,943
Education and Related Services	246,930	2,998,770	12,144
Health and Welfare	296,509	3,477,308	11,727
Religious Organizations	17,417	108,243	6,215
Amusement and Recreation	39,260	151,569	3,861
Services to Business Management	187,281	1,279,121	6,830
Personal Services	53,874	270,330	5,018
Accommodation and Food Services	242,927	725,282	2,986
Miscellaneous Services	84,191	468,008	5,559
	1,168,389	9,478,631	8,113
Total	2,014,441	16,439,777	8,161

Source: Statistics Canada Special Data.

N.B. The Statistics Canada Special Data does not provide information on Public Administration.

Table 5B

Employment and Average Payroll for Males, by SIC Major Groups, 1983

Major Groups	Employment (T4 Slips) (#)	Payroll ($000)	Average Payroll ($)
Construction	290,847	3,202,229	11,010
Transportation	158,593	2,680,551	16,902
Communications	34,886	984,123	28,210
Other Utilities	49,407	1,452,732	29,403
	242,886	5,117,406	21,069
Wholesale Trade	193,429	3,054,514	15,791
Retail Trade	345,935	3,547,129	10,254
	539,364	6,601,643	12,240
Finance Industries	67,707	1,565,018	23,115
Insurance Carriers	21,994	569,741	25,904
Insurance Agencies and Real Estate	54,986	888,446	16,158
	144,687	3,023,205	20,895
Education and Related Services	186,952	3,647,067	19,508
Health and Welfare	57,832	860,763	14,884
Religious Organizations	17,423	168,372	9,664
Amusement and Recreation	49,062	289,662	5,904
Services to Business Management	160,353	2,214,359	13,809
Personal Services	20,218	174,322	8,622
Accommodation and Food Services	167,609	774,965	4,624
Miscellaneous Services	89,601	885,690	9,885
	749,050	9,015,200	12,036
Total	1,966,834	26,959,683	13,707

Source: Statistics Canada Special Data.

N.B. The Statistics Canada Special Data does not provide information on Public Administration.

Table 6

Full-Time and Part-Time Employees, 1985*
(000s)

	Males		Part-Time	Females		Part Time
	Full Time	Part Time	as % of Total	Full Time	Part Time	as % of Total
Primary Sector	123	10	7.5	31	15	32.6
Manufacturing Sector	706	12	1.7	270	19	6.6
Construction	199	7	3.4	17	8	32.0
Transportation, Communications and Other Utilities	225	8	3.4	62	14	18.4
Trade	349	61	14.9	213	138	39.3
Finance, Insurance and Real Estate	95	6	5.9	132	22	14.3
Community, Business and Personal Services	435	78	15.2	579	274	32.1
Public Administration	168	7	4.0	104	13	11.1
Total Service Sector	1,470	167	10.2	1,107	469	29.8
Total Economy	2,298	191	7.7	1,409	504	26.3

Source: Statistics Canada, unpublished data.

* Numbers may not add due to rounding.

Table 7

Small Business Start-Ups

Type of Business	Female Entrepreneurs		Male Entrepreneurs	
	#	%	#	%
Manufacturing	22	10.6	53	7.5
Service	124	59.6	504	71.7
Retail	62	29.8	146	20.8
	208	100.0	703	100.0

Source: Derived from data in Survey of Small Business Registrants, 1984.

YOUTH AND THE SERVICE SECTOR

INTRODUCTION

There were 1.5 million young people (15 to 24 years of age) in Ontario in 1985. Seventy-one per cent (1.1 million) participated in the labour force during the year. In Canada as a whole, only 67 per cent of all young people were in the labour force for some part of 1985. The labour force participation rate for 15 to 19 year olds in Ontario was 59 per cent in 1985; while it was 82 per cent for 20 to 24 year olds. (For sources of Statistical data, see Tables at end.)

An average of 942,000 youth were employed in 1985. This equalled 62 per cent of all young people in the province; an employment to population ratio for youth significantly greater than the 56 per cent average across Canada. The employment to population ratios in Ontario were 49 per cent for 15 to 19 year olds and 72 per cent for 20 to 24 year olds.

Of the 1.5 million youth in Ontario, 578,000 (or 38 per cent) attended school full-time during the year. Forty-four per cent of these students (253,000) participated in the labour force and 38 per cent of them (222,000) were employed. The labour force participation rate for the 948,000 youth who were not in school either on a full-time or part-time basis was 88 per cent. Seventy-six per cent of the 948,000 were employed. Twelve per cent, on average, were unemployed during the year, and the other 12 per cent were not in the labour force.

Sixty-seven per cent (627,000) of the average number of youth in Ontario employed in 1985 had full-time jobs. On the other hand, 69 per cent of all the employed Canadian youth had full-time jobs. Seventy-two per cent of male youths employed in Ontario had full-time jobs; while only 61 per cent of female youths had full-time jobs. Of the 315,000 youth in Ontario with part-time employment, 67 per cent were also attending school; 22 per cent could only find part-time employment; and 10 per cent did not want full-time work.

Finally, according to the results of the Statistics Canada "Annual Work Patterns Survey", each youth in Ontario who was in the labour force at some time during 1984 averaged 32 weeks of employment during the year, 5 weeks of unemployment and 15 weeks out of the labour force. The comparable figures for all youth in Canada in 1984 were 31 weeks, 7 weeks and 14 weeks respectively. For all individuals in Ontario, 15 years of age and over, the averages were 42 weeks of employment, 4 weeks of unemployment and 7 weeks out of the labour force.

YOUTH EMPLOYMENT AND EARNINGS IN SERVICE INDUSTRIES IN 1983

According to the special tabulations provided by Statistics Canada, companies in the service industries in Ontario provided jobs during 1983 to 597,200 males and 656,100 females between the ages of 15 and 24. (See Appendix. Government and public organizations are not included among the tabulations for the service industries. See Table 2 for a listing of the major service industries for which the employment data were available.) These totals refer to the number of T4 slips issued by employers for income tax purposes. Thus, the average number of jobs available to and filled by youth was less than the 1,253,300 total above. Moreover, the actual number of young males and females who had jobs during the year in the service industries were less than the above totals. (The number of youth employed on average during the year in the service industries was probably between 45 and 60 per cent of the 1.3 million total number of T4 slips. This would imply an average of 1.5 to 2 jobs in the service industries per year per youth.) Since job-hopping and hence short durations on a job are common for young people, many youths held more than one job in the service industries during the year and so received more than one T4 from companies in these industries.

Sixty-eight per cent of all T4 slips received by male youths in Ontario in 1983, and 81 per cent of all T4 slips received by female youths were issued by companies in the service industries. Youth received 32 per cent of the nearly 4 million T4 slips given out by firms in the service industries in Ontario.

Table 1 lists ten major service industries in terms of the numbers of T4 slips given to youth employees. There is a marked overlap both in the industries and their rankings for males and females. For males, the top five industries were -retail trade; accommodation, food and beverage services; construction; other services; and wholesale trade. Fifty-one per cent (444,168) of all T4 slips received by male youths came from companies in these five industries. The top five industries for females were - retail trade; accommodation, food and beverage services; other services; health and social services; and business services. Sixty-one per cent (497,989) of all female youths were "employed" in these industries.

Youth received 32 per cent of all T4 slips in the service industries and 30 per cent of the T4 slips in all industries (see Table 2). Only in the following service industries did youth receive more than 30 per cent of the T4 slips - accommodation, food and beverage services (56%); retail trade (44%); and other services (42%). Youth accounted for 20 per cent or less of all T4 slips in the following service industries - transportation and storage; real estate operators and insurance agents; education; health and social services; finance and insurance; and communications and utilities.

At a more detailed breakdown of the service industries, youth accounted for 50 per cent or more of all T4 slips in the following - gas service stations (61%, part of retail trade); food and beverage services (60%, accommodation, food, etc.); amusement and recreation (53%, other services); food stores (52%, retail trade); and clothing and dry goods stores (50%, retail trade). Altogether, 346,600 youth were "employed" in these five industries. This represented 28 per cent of all youth T4 slips from the service industries, and 20 per cent of all youth T4 slips.

Tables 3 and 4 list the five highest paying and five lowest paying service industries for youth. The average annual salaries for males ranged from a low of $2,166 in education (45 per cent of the all industry average of $4,817) to a high of $12,973 in communications and utilities (269 per cent of the all industry average). Three of the top five service industries by employment ranked among the five lowest paying industries for males (accommodation, etc.; other services; retail trade). Only one of the top five employment industries ranked among the five highest paying industries (wholesale trade).

The average annual salaries for females ranged from a low of $1,844 in accommodation, food and beverage services (48 per cent of the all industry average of $3,818) to a high of $11,594 in communications and utilities (304 per cent of the all industry average). Once again, the same three of the top five service industries by employment ranked among the lowest paying industries for females. And one ranked among the highest paying industries (health and social services).

The salaries received by young people generally were well below those for males and females 25 years of age and over in the same service industries. The substantial gaps likely reflect the lower levels of on-the-job training and seniority of young people and the higher proportion of young people employed part-time and/or part-year. For females, the discrepancies between youth and adult salaries were relatively smaller than for males. This suggests that all females face the same problems as youth with respect to pay levels.

TRENDS IN YOUTH EMPLOYMENT IN THE SERVICE INDUSTRIES IN ONTARIO

According to Census data, there were 616,500 more youths employed in Ontario in 1981 than in 1961. This represented an increase of 142 per cent over the 20 year period. The largest increase in the numbers employed occurrred for females 20 to 24 years of age (see Table 5). There were 212,000 more females in this age group employed in 1981 than in 1961. The smallest increase occurred for males 15 to 19 (108,400 more employed in 1981). The overall growth rates in employment levels during the 20 year period ranged from 110 per cent for males 20 to 24 to 209 per cent for females in the same age group.

There were 118,000 more young people employed in the manufacturing sector in 1981 than in 1961. This increase in employment levels in the manufacturing sector accounted for 19 per cent of the total increase in employment in the youth category and represented 115 per cent increase over the level of employment in the manufacturing sector in 1961. 456,000 more youths were employed in the service industries (again excluding government and organizations) in 1981 than in 1961. There were 155,000 more females 20 to 24 years of age employed in the service industries in 1981; 118,000 more males 20 to 24; 93,000 more females 15 to 19; and 91,000 more males 15 to 19. The aggregate increase in employment in the service industries accounted for 74 per cent of the total increase in youth employment. Furthermore, employment levels for youth in the service industries were 173 per cent greater in 1981 than in 1961. The growth rates ranged from 139 per cent for males 20 to 24 to 205 per cent for females 20 to 24.

Among 15 to 19 year olds, the higher levels of employment in the service industries comprised 84 per cent of the total increase in employment for this age group during the 20 year period. For 20 to 24 year olds, the increase in employment in the service industries represented 63 per cent of the total increase in employment for males and 73 per cent of the total increase for females.

Table 6 lists the top five service industries by employment changes during the two decades between 1961 and 1981. For all four youth groups, retail trade and accommodation, etc. ranked among the top five. Construction and wholesale trade also ranked among the top five for both male groups. Business services (services to business management) ranked among the top five for both female groups, and for males 20 to 24 as well.

Table 7 lists the five highest and five lowest employment growth rate service industries for each of the four youth groups for each of the time periods - 1961-71, 1971-81 and 1961-81. Between 1961 and 1981, accommodation, etc. and other services ranked among the five highest growth rate industries for all four groups. Recreation services ranked among the five highest for three of the groups (both female groups and males 20 to 24), as did business services (both male groups and females 20 to 24).

Only the other services industry ranked among the five highest growth rate industries for all four groups in both the 1961-71 and 1971-81 periods. Accommodation, food and beverage services ranked among the top five for all groups during the latter decade (1971-81), but only for 15 to 19 year olds during the earlier decade. On the other hand, recreation services ranked among the five highest for all groups during the 1961-71 period, and for all groups except males 15 to 19 during the 1971-81 decade.

Education ranked among the five highest growth rate industries during the 1961-71 decade for all groups except females 15 to 19. Between 1971 and 1981 there was a complete reversal as education ranked among the five lowest growth rate industries for the same three groups. Indeed, employment for 20 to 24 year olds in the education industry declined sharply during the latter decade.

Turning to the other end of the growth spectrum, we find that financial institutions (excluding insurance carriers), communications and personal services ranked among the lowest growth rate industries for all groups for the entire 20 year period. In 1981, there were fewer 15 to 19 year olds employed in financial institutions than in 1961. The utilities industry also ranked among the bottom for three groups during the 1961-81 period (15 to 19 year olds and females 20 to 24).

Personal services was the only industry to rank among the five lowest growth rate industries for all groups in both the 1961-71 and 1971-81 periods. Financial institutions ranked among the bottom five for all groups for the 1961-71 period, but only for males 20 to 24 during the latter decade.

As pointed out above, education ranked among the bottom five for three of the groups during the 1971-81 period. Health and social services also ranked among the bottom during this period for three of the groups (20 to 24 year olds and females 15 to 19). This experience for these two industries might have been the result of the changes in the demographic composition of Ontario's population and/or changes in government spending priorities.

SELF EMPLOYMENT

There were 11 million people employed in Canada in 1984. Nearly 1.5 million were self-employed, either working on their own or as an employer of others. These self-employed were distributed as follows among the major service industry categories:

- 33 per cent (492,000) in community, business and personal services);
- 22 per cent (327,000) in wholesale and retail trade;
- 11 per cent (166,000) in construction;
- 5 per cent (67,000) in transportation, storage, communications and utilities; and
- 3 per cent (49,000) in finance, insurance and real estate.

Another 5 per cent of the self-employed were in the manufacturing sector.

The self-employed comprised 14 per cent of the 11 million people employed in 1984. In the major sectors, the self-employed accounted for the following proportions of the total numbers employed in each sector - 4 per cent in manufacturing; 29 per cent in construction; 17 per cent in trade; 14 per cent in community, business and personal services; and 8 per cent in transportation, etc. and finance, etc.

Forty-four per cent of all self-employed ran businesses that employed others. In the manufacturing sector, 75 per cent of the self-employed owned companies that employed more than one person. In the service sectors the proportions of the self-employed who ran companies that hired others were as follows - finance, etc., 57 per cent; trade, 55 per cent; construction, 53 per cent; community, etc., 40 per cent; and transportation, etc., 36 per cent.

There were 77,000 males and 74,000 females, 15 to 24 years of age, that were self-employed in Canada in 1984. The self-employed youth accounted for 10 per cent of all the self-employed in Canada. Eighty-eight per cent (65,000) of the self-employed females 15 to 24 were in the community, business and personal services. Thirty-six per cent (28,000) and 25 per cent (19,000) of the self-employed males 15 to 24 were in the trade and community, etc. sectors respectively. According to the Statistics Canada survey from which these data were taken: "Most self-employed workers in the younger age group were baby-sitters (personal services) and newspaper carriers (trade)".

VOLUNTEERS

According to a special Statistics Canada survey, in 1981 9.4 per cent of all 15 to 19 year olds and 9.3 per cent of all 20 to 24 year olds in Canada did some volunteer work. In comparison, 15.2 per cent of all Canadians over the age of 15 did some volunteer work in that year. Thus, while youth comprised 25.5 per cent of the working age population in Canada, they accounted for only 15.7 per cent of all the people who did volunteer work.

There were 79,000 15 to 19 year olds and 77,000 20 to 24 year olds in Ontario who did volunteer work in 1981. They accounted for 36.2 per cent and 36.7 per cent of all 15 to 19 year old Canadians and 20 to 24 year old Canadians respectively who did volunteer work. These shares were slightly higher than the 35.9 per cent share for all working age Ontarians.

TABLE 1

Top Ten Service Industries by Employment, Males and Females 15 to 24 Years of Age, Ontario, 1983

Industry	Number	% of Total Employment	Cumulative %
		Males	
1. Retail trade	153,004	17.5	17.5
2. Accomodation, food & beverages	96,443	11.0	28.5
3. Construction	73,795	8.4	36.9
4. Other services	65,895	7.5	44.4
5. Wholesale trade	55,031	6.3	50.7
6. Business services	42,898	4.9	55.6
7. Education	35,774	4.1	59.7
8. Transportation & storage	31,262	3.6	63.3
9 Health & social	13,298	1.5	64.8
10. Finance & insurance	10,414	1.2	66.0
		Females	
1. Retail trade	173,899	21.4	21.4
2. Accomodation, food & beverage	135,453	16.6	38.0
3. Other services	74,088	9.1	47.1
4. Health & social	57,657	7.1	54.2
5. Business services	56,892	7.0	61.2
6. Education	49,609	6.1	67.3
7. Finance & insurance	37,902	4.7	72.0
8. Wholesale trade	29,839	3.7	75.7
9. Real estate & insurance agents	13,146	1.6	77.3
10. Transportation & storage	10,862	1.3	78.6

Source: Statistics Canada, Special Tabulations.

TABLE 2

Youth as a Proportion of All Employees, Major Service Industries, Ontario, 1983

Industry	%
Accomodation, food & beverages	56
Retail trade	44
Other services	42
Wholesale trade	29
Business services	29
Construction	25
Transportation & storage	20
Real estate operators & insurance agents	20
Education	20
Health & social services	20
Finance & insurance	19
Communications & utilities	15
All industries (including manufacturing & resources)	30

Source: See Table 1.

TABLE 3

Five Highest Paying Service Industries, Males and Females 15-24 Years of Age, Ontario, 1983

Industry	Avg. Payroll per Employee[1]	% of All Industry Avg.[2]	% of Non-Youth[3]
		Males	
1. Communications & utilities	$12,973	269	42
2. Finance & insurance	8,018	166	31
3. Transportation & storage	6,465	134	34
4. Health & social services	5,527	115	31
5. Wholesale trade	5,437	113	28
		Females	
1. Communications & utilities	11,594	304	60
2. Finance & insurance	8,158	214	66
3. Health & social services	6,554	172	51
4. Transportation & storage	5,818	152	56
5. Real estate & insurance agents	5,226	137	47

Notes: 1. Annual average.
2. Proportion of average payroll per employee for all male/female youth in all industries.
3. Proportion of average payroll per employee for all males/females over the age of 24 in the same service industry.

Source: See Table 1.

TABLE 4

Five Lowest Paying Service Industries, Males and Females 15-24 Years of Age, Ontario, 1983

Industry	Avg. Payroll per Employee[1]	% of All Industry Avg.[2]	% of Non-Youth[3]
		Males	
1. Education	$2,166	45	9
2. Accomodation, food, beverage	2,353	49	31
3. Other services	2,958	61	24
4. Business services	3,730	77	21
5. Retail trade	4,231	88	28
		Females	
1. Accomodation, etc.	1,844	48	42
2. Education	2,522	66	17
3. Other services	2,780	73	42
4. Retail trade	3,022	79	42
5. Construction	3,774	99	42

Notes: 1, 2, 3: See Table 3.

Source: See Table 1.

TABLE 5

Changes in Levels of Employment, Selected Major Industries, Males and Females, 15-19 and 20-24 Years of Age, Ontario, 1961-81

Demographic Group	All Industries	Mfgring.	Services (ex. Gov't)	Gov't
Males 15-19				
Number	108,439	18,023	90,594	848
% of total change	100	17	84	1
% change	120	92	194	13
Females 15-19				
Number	109,828	5,972	92,699	3,504
% of total change	100	5	84	3
% change	152	44	164	113
Males 20-24				
Number	186,240	63,304	117,716	4,998
% of total change	100	34	63	3
% change	110	131	139	32
Females 20-24				
Number	211,971	30,715	154,952	15,778
% of total change	100	14	73	7
% change	209	142	205	277
All 15-24 year olds				
Number	616,478	118,014	455,961	25,128
% of total change	100	19	74	4
% change	142	115	173	82

Sources: Statistics Canada, 1961, 1971 and 1981 Census.

TABLE 6

Top Five Service Industries by Employment Changes 1961-81, Males and Females, 15-19 and 20-24 Years of Age, Ontario

Males 15-19	Females 15-19	Males 20-24	Females 20-24
Retail trade (27,481)	Accomodation,etc. (36,681)	Retail trade (24,616)	Retail trade (37,381)
Accomodation,etc. (26,166)	Retail trade (36,504)	Construction (17,976)	Accomodation,etc. (25,629)
Construction (8,363)	Recreation serv. (6,880)	Wholesale trade (13,992)	Health & social (18,383)
Wholesale trade (6,399)	Business services (4,015)	Accomodation,etc. (13,673)	Business services (16,592)
Recreation serv. (5,963)	Other services (3,188)	Business services (11,689)	Financial inst. (9,238)

Sources: See Table 5.

TABLE 7

Five Highest and Five Lowest Employment Growth Rate Service Industries, Males and Females, 15-19 and 20-24 Years of Age, Ontario, 1961-71, 1971-81 and 1961-81

1961-1971	1971-1981	1961-1981
Males 15-19		
	Five Highest	
Other services (278%)	Accomodation, etc. (182)	Accomodation,etc.(912)
Education (263)	Business services (108)	Other services (606)
Accomodation,etc. (259)	Storage (92)	Health & social (357)
Health & social (240)	Other services (87)	Business services (335)
Recreation services (135)	Financial inst. (72)	Storage (334)
	Five Lowest	
Financial inst. (-54%)	Communications (-31)	Financial inst. (-20)
Transportation (33)	Personal services (2)	Communications (26)
Personal services (47)	Education (3)	Personal services (50)
Utilities (53)	Transportation (28)	Transportation (71)
Retail trade (74)	Construction (29)	Utilities (104)
Females 15-19		
	Five Highest	
Recreation services (295)	Other services (230)	Recreation serv. (917)
Accomodation,etc. (187)	Accomodation,etc. (177)	Other services (624)
Other services (180)	Recreation serv. (157)	Accomodation,etc.(604)
Storage (150)	Transportation (134)	Construction (368)
Construction (124)	Construction (109)	Retail trade (277)

Five Lowest

Financial inst. (-55)	Communications (-25)	Financial inst. (-46)
Utilities (-33)	Personal services (-11)	Communications (-36)
Communications (-15)	Utilities (4)	Utilities (-30)
Insurance (-6)	Insurance (12)	Personal services (0)
Personal services (12)	Health & social (13)	Insurance (6)

Males 20-24

Five Highest

Recreation serv. (241)	Accomodation,etc. (151)	Other services (466)
Health & social (233)	Business services (97)	Recreation serv. (450)
Other services (204)	Other services (86)	Accomodation,etc.(386)
Education (192)	Recreation serv. (62)	Business services (331)
Storage (169)	Wholesale trade (57)	Storage (282)

Five Lowest

Personal services (16)	Education (-40)	Personal services (22)
Transportation (33)	Financial inst. (-7)	Financial inst. (27)
Financial inst. (36)	Personal services (5)	Transportation (71)
Construction (61)	Health & social (17)	Education (75)
Retail trade (61)	Insurance (7)	Communications (98)

Females 20-24

Five Highest

Other services (276)	Accomodation, etc. (251)	Recreation serv. (1002)
Recreation serv. (272)	Recreation serv. (196)	Other services (923)
Business services (173)	Other services (172)	Accomodation,etc.(623)
Education (172)	Storage (170)	Business services (537)
Construction (169)	Transportation (137)	Retail trade (450)

Five Lowest

Financial inst. (17)	Education (-47)	Education (44)
Utilities (31)	Health & social (10)	Financial inst. (76)
Communications (40)	Personal services (27)	Personal services (78)
Personal services (40)	Communications (30)	Utilities (79)
Storage (56)	Utilities (37)	Communications (82)

Sources: See Table 5.

APPENDIX: A COMPARISON OF CENSUS DATA FOR 1981 AND T4 DATA FOR 1983

Industry	1983[1]	1981[2]	1983/1981
		Males 15-24	
Construction	73,795	49,135	1.5
Transportation & storage	31,262	22,880	1.4
Communications & utilities	10,383	13,600	0.8
Wholesale trade	55,031	32,580	1.7
Retail trade	153,004	94,380	1.6
Finance, insurance & real estate	19,424	11,995	1.6
Education	35,774	9250	3.9
Health & social services	13,296	9280	1.4
Accomodation, food, etc	96,443	46,255	2.1
Business services	42,898	18,905	2.3
Other services	65,895	31,285	2.1
All service industries[3]	597,200	339,545	1.8
		Females 15-24	
Construction	8319	4900	1.7
Transportation & storage	10,862	8,490	1.3
Communications & utilities	8,418	11,065	0.8
Wholesale trade	29,839	17,385	1.7
Retail trade	173,899	95,350	1.8
Finance, insurance & real estate	51,048	43,640	1.2
Education	49,609	20,390	2.4
Health & social services	57,657	43,460	1.3
Accomodation, food, etc	135,453	71,705	1.9
Business services	56,892	25,250	2.3
Other services	74,088	38,150	1.9
All service industries	656,100	379,785	1.7

1. Number of T4s received in 1983 according to special tabulations from Statistics Canada.

2. Number employed in 1981 according to Census results.

3. Excludes government and organizations such as religious and labour

INDUSTRY PROFILES

ACCOUNTING

DEFINITION

The Canadian Institute of Chartered Accountants (CICA) has defined financial accounting as a "medium of communication of pertinent economic information by those responsible for managing an entity to other parties (owners, investors, creditors and the public generally) having an interest in it but who do not have access to its internal information system." Financial accounting and public accounting are, by and large, synonymous. Other services are provided by the accounting profession. These services are of significance primarily to the clients who purchase them. They include tax advice, finance advice, and more generally, services designed to facilitate the financial management of an enterprise.

INDUSTRY STATUS

Industry Segments

The client base of accountants in public practice is broad and diversified. The vast majority of large and small businesses use accounting services in some form. In addition, non-profit organizations, public institutions, government and individuals make use of accounting services. Third parties rely either wholly or substantially on the specialized skills that an accountant can provide. The third parties include investors, banks and other lending institutions, tax authorities, the TSE, bonding companies, and numerous government departments and agencies.

The accounting industry is dichotomized into public accounting and non-public accounting. Services provided for clients that ultimately are for the benefit of third parties come within the realm of public accounting. The Public Accountancy Act of Ontario (PAA) defines a public accountant as follows:

> a person who either alone or in partnership engages for reward in public practice involving,
>
> (i) the performance of services which include causing to be prepared, signed, delivered or issued any financial, accounting or related statement, or
>
> (ii) the issue of any written opinion, report or certificate concerning any such statement,

> where by reason of the circumstances or of the signature, stationery or wording employed, it is indicated that such person or partnership acts in relation to such statement, opinion, report or certificate as an independent accountant or auditor.

Non-public accounting consists of all other services provided by accountants in public practice. Unlike public accounting services in which the demand usually originates with third parties or because of public statutes, non-public accounting services, which are of a consultative or advice-giving nature, are demanded directly by second parties and for the explicit purpose of improving the functioning of the firm and the attainment of profit objectives.

Accountants who are licensed to practise public accounting have a competitive advantage over those who are not licensed. The inability to provide licensed services handicaps unlicensed practitioners in two ways. First, corporations and unincorporated firms that require a range of accounting services, of which the public accounting services form a part, are unlikely to engage an unlicensed accountant. Secondly, corporations and unincorporated firms that grow beyond a certain size are likely to change to licensed practitioners because of the expanded range of services required.

There is a third layer in the accounting industry. It consists of the three major accounting organizations which provide education/training programs and grant certificates to all who successfully complete a specific program. The Institute of Chartered Accountants of Ontario (ICAO) and its programs are primarily oriented towards public accounting. The Society of Management Accountants of Ontario (SMAO) is geared towards management accounting and very few of its members are in public practice. The Certified General Accountants Association of Ontario (CGAAO) prepares its members for either public accounting or management accounting. In addition to the education programs and certification, each of the associations provides a wide range of services to both its members and the general public.

Number of Companies

In 1984 the ICAO mailed its biennial compensation and billing survey questionnaire to 1,795 accounting offices. However, according to Statistics Canada data, there were 2,010 accounting offices in Ontario in 1983. The discrepancy between these two numbers is, in part, the result of non-CA firms not being included in the ICAO survey, but being included in the Statistics

Canada tabulations. In addition, the ICAO survey was not sent to the separate offices around the province of the multi-office accounting firms; whereas, the Statistics Canada totals might include each office of such firms.

Employment

Using one source of Statistics Canada data, we can approximate the total number of individuals working in the offices of accountants in 1984 in Ontario to be in the range of 19,000 to 20,000. This compares with another Statistics Canada estimate for 1983 of a full-year equivalent level of employment of 15,739. Taking into account employment growth in the industry and the use of part-time employees suggests that an employment estimate of 19,000 for the industry in 1984 may be close to the mark. This figure is 0.7% of total service industries employment in the province in 1984.

There is available from the ICAO more precise data on the number of CAs and students both in public practice and in industry and government. According to the ICAO's records, this Institute had 18,617 members and 4,747 students in 1985. Only 6,626 members (36%) were in public practice in Ontario. In 1976, the Institute had 11,334 members and 3,695 students - 4,368 members (39%) were in public practice in Ontario in that year. Thus, between 1976 and 1985 the number of students has grown at an average annual rate of 2.8%; while the number of CAs in public practice has increased at an annual rate of 4.7%. These growth rates compare with an average annual growth rate for total service industries employment in Ontario over the period 1975 to 1984 of 2.1%.

Firm Size

Table 1 presents a breakdown by firm size of the firms that responded to the 1984 ICAO survey. (Only 26% of the 1,795 offices responded). According to this data base, 55% of the firms had between one and six individuals; while 2% had more than 100 individuals.

We find, using the survey data, that the newest and smallest firms had an average of 1.7 persons per office, consisting of 1.02 CAs, 0.04 students and 0.64 other employees. In these firms, CAs comprised 60% of the staff. In the largest firms, CAs comprised 43% of an average staff of 232 persons. Moreover, the larger the firm, the more students employed in the firm. (See Table 2 for a detailed breakdown.)

Regional Distribution

According to the ICAO survey data, 37% of the firms were located in the Metropolitan Toronto area. Another 31% were situated in other urban centres, and only 17% were located in population centres of 25,000 or less people. None of the largest firms had their head offices outside of Metropolitan Toronto. This does not mean that these firms did not have any offices in other areas of the province. Indeed, all of the largest eight in Ontario had offices outside of Toronto. Three companies in particular - Ward Mallette, Thorne Riddell and Deloite Haskins and Sells - had offices throughout the province.

The ICAO membership figures show that 51% of the members in public practice in Ontario were located in the Metro Toronto area. This is consistent with the above findings since the largest firms have the largest proportion of their CAs in the Metro Toronto offices.

Industry Output

On a national basis, the value added generated by the accounting industry totalled $1,318 million in 1983 or 0.38% of total GDP. During the period 1971 to 1983, value added in this industry increased at an average annual rate of 14%. GDP increased by only 13% per year during this same period. If we use the national ratio for 1983 and apply it to Ontario's GPP, we derive a value added figure for the accounting industry in Ontario of about $550 million. This estimate is likely to be a little low because of the relatively greater concentration of the accounting industry in Ontario.

Industry Births and Deaths

Between 1978 and 1983, 1,058 new offices were established in Ontario and 599 offices were closed and/or merged into other ones either in Ontario or elsewhere. Entry is relatively easy into the accounting industry. To open an office and practice in the area of public accounting, one needs primarily to meet the licensing requirements. One does not even need a certificate to practice in the area of non-public accounting. For example, accounting experience is not mandatory for filling out tax returns for others. However, entry into the upper echelon of the industry - the audit function, especially for large companies - is very difficult.

Openings and closings of offices accounted for significant proportions of the net changes in employment levels in the industry between 1978 and 1983 (53% and -43% respectively). Increasing employment levels in continuing offices, particularly the largest ones, accounted for 116% of the net change in employment.

Concentration

As suggested above, entry into the industry segment involving the auditing of large corporations is difficult; and not surprisingly, this segment displays the highest degree of dominance by the major accounting firms. This is a world-wide phenomenon. A study by Professors Bavishi and Wyman of the University of Connecticut found that in 1980 the Big-9 international auditing firms audited 66% of the 9,160 largest companies in the world for which the auditor could be identified. 719 of these companies were in Canada, and the Big-9 audited 90% of these. According to Financial Post data, the Big-9 audited 437 (87%) of the Financial Post 500 in 1983.

In a 1978 study for the Professional Organizations Committee, it was estimated, using the results of a specially-commissioned survey, that the five largest accounting firms in the province received 59% of all auditing fees, had 92% of the largest companies as clients, had 42% of all CAs in Ontario and employed 50% of all students enrolled in the ICAO program. These firms comprised only 0.8% of all firms in the sample. These firms had only 8% of the smallest firms as clients and received only 14% of all fees in Ontario for other public accounting work (i.e. non-audit work).

The segmentation of the industry extends beyond the public/non-public accounting dichotomy. Even within the public accounting segment, there is a further dichotomy between large and small firms. The larger public accounting firms specialize in the provision of auditing services, while the smaller public accounting firms are more dependent on non-audit, public accounting services. Furthermore, the larger firms have established separate and significant management consulting practices. The smaller firms do not seem to specialize in the provision of management advisory services, although this is beginning to change with the increasing use of computers.

Foreign Ownership

Eight of the 10 largest Canadian accounting firms, with their national head office in Ontario, are affiliated with 8 of the Big-9 international auditing firms, all but one headquartered in the U.S. (see Table 3). The other two are affiliated with international auditing firms in the second tier of four companies. Six of the Canadian firms operate under the international name. The other four operate under their own names but are associated with the international firms. Since there is no corporate structure in accounting, only partnerships, the Canadian firms are not subsidiaries of the international firms. Moreover, as a result of the regulatory and licensing regimes for the industry, the senior managers and partners of the Canadian firms are Canadians with accounting certificates from one of the three associations (primarily from one of the provincial CA associations). However, U.S. partners dominate in terms of numbers in the eight firms headquartered in the U.S. (see Table 4). This does not necessarily translate into their dictating the planning decisions for the international organization.

INDUSTRY TRENDS

Trends

There has been continued strong growth in the demand for accounting services. At the same time there has been a change in the mix and nature of the services being demanded. The shift is towards non-audit reviews, management consulting/advisory services, and specialized tax and financial advice. Furthermore, the ICAO has pointed out that there appears to be a trend under way in the U.S. towards the creation of professional supermarkets; that is, organizations consisting of professionals from several different fields. Thus, just as there is a trend towards one-stop shopping for financial services, there is developing a trend towards one-stop shopping for professional services. This same trend is apparent in the health services area as well.

Key Factors

The key factors propelling the growth in demand for accounting services have been economic growth, the formation of new businesses and the increasing complexity of the tax laws. The formation of new businesses, especially small companies, has also been a key factor in changing the structure of demand for accounting services. Small companies have different accounting requirements than those of middle and large-sized companies. They have little or no need for audits, at least during their early years, and they have a greater need for external management and financial advice. The increasing use of computers and availability of accounting software are cutting down the amount of time accountants, dealing with smaller companies, must spend in generating and verifying numbers and thus are freeing up time that can be used in advising clients.

The trend towards increased specialization within the accounting industry is the product of a rapidly growing body of knowledge and the increasing complexity of skills required.

INDUSTRY OUTLOOK

Problems

There appear to be five basic problems facing the industry in Ontario today. They are (in no particular order of importance): regulation; education; liability insurance; small business; and an expectations gap.

There has been an on-going debate over the licensing aspect of the regulation of public accounting. There is little conflict among the three associations over the need to regulate and the definition of public accounting. The ICAO wants to maintain the present licensing arrangement under the PAA. This essentially restricts access to the license to those individuals that successfully complete the requirements for a CA designation. The SMAO is neutral on this question since their members are trained primarily for work in industry and government. The CGAAO is opposed to the current arrangement. They believe that their members are equally well qualified to practice in the areas of public accounting. Under the present rules, CGA firms are at a competitive disadvantage in the accounting marketplace. Since they cannot prepare financial statements for their clients (predominantly small businesses that the CGAAO claims cannot afford the fees of CA firms), if the financial statements are to be used by third parties (primarily financial institutions), the CGA firms lose their clients to CA firms. As a result, the small businesses cannot afford the same range of services as they received from the CGA firms. In addition, licensing regulations in Ontario, Quebec and Nova Scotia are preventing the growth of national CGA firms which could provide additional competition for the middle-sized, national CA firms.

The ICAO, in turn, argues that financial affairs have become more complex and the integrity of the financial markets must be maintained (witness for example, the concerns with solvency and stability in the various government studies/reports on the future of the financial services industry). Thus, it is important to maintain a single standard for public accounting for this will reinforce the integrity of the financial system.

All three associations are in agreement that the costs of providing a thorough and well-balanced education for their students are increasing rapidly. The rapidly expanding knowledge base of the profession and the increasing importance and use of computers are the main factors contributing to the escalating costs and the increasing complexity of providing a complete education. Some practitioners in public accounting complained that an unacceptably high proportion of graduating students are inadequately prepared to practice in the field.

The CICA has pointed out:

> "The present number of accounting doctoral programs, accounting doctoral candidates and highly qualified accounting educators is insufficient to meet the needs of the profession both now and in the future. In recognition of accounting as a mature discipline we believe that the system must now undergo further improvements to alleviate the emerging crisis."

In addition, the ICAO noted that the changes in computer technology create pressures to place greater emphasis on computer literacy in their curriculum and create special problems in educating/training the older members who are less proficient in the use of computers.

The CGAAO also commented upon the need to change the education program to put a greater emphasis on developing computer literacy. However, the costs of upgrading professional education and providing students with hands-on experience on computers are increasing sharply and putting severe pressures on the ability of students to pay the fees necessary to cover the costs. The SMAO also emphasized that major changes are required in their training/education, and on-going professional development programs in order to deal with the increasing complexity of the accounting profession. This Association was uncertain as to whether more of the education program should be undertaken within universities and community colleges.

The liability insurance problem affected the accounting industry as well. The ICAO noted the increasing costs and reduced availability of liability insurance for its members. The Association attributed these problems, to a large extent, to the fact that society had become more litigous. The CGAAO added that the largest claims were occuring in the audit fields, and since the insurance industry was not distinguishing among the various types of practices, these large claims were artificially increasing premiums for accountants who rarely engaged in audits.

One public accountant pointed out that small businesses consider accountants/auditors to be no more than bookkeepers or believe that they cannot afford to use the service of accountants. Hence, they do not use the full capabilities of accountants. The CGAAO commented that their members who are in public practice deal primarily with small businesses and do provide them with a wide range of services because they tend to charge lower fees. But as noted above, as their clients increase in size, CGA firms become at a competitive disadvantage in further serving the needs of these clients.

Finally, the ICAO stated that there is an expectations gap problem. The courts, government and others have the perception of public accountants as the guarantors of information. The profession only attests to the accuracy of the information provided to them. The profession does not want to act as a whistle blower.

Opportunities

Strong economic growth, the creation and growth of small businesses, the further internationalization of business and changes in organizational structures will all produce growth opportunities for the accounting industry. A recent Stanford Research Institute study on "The Future of International Services" pointed out that the internationalization of business has increased the need for more sophisticated market research services. This trend has induced many advertising and accounting firms in the U.S. to enter this market by either making acquisitions or joining networks. Moreover, this internationalization of business, and changes in economic conditions and in organizational structures have created demands for new reporting and auditing techniques. Increased complexity in managing businesses leads to an increased complexity in accounting standards and procedures and hence new opportunities for the profession.

The ICAO has noted that the increasing complexity and the technological advancements with computers are expanding the scope of the attestation function. More and more, accounting/auditing firms will move into the area of comprehensive auditing; that is, expressing opinions on more than financial information. This will necessitate combining the talents of professionals in other fields (e.g. engineers, lawyers) with those of public accountants. In addition, the ICAO and public practioners see the possibility of using the familiarity gained from audits of a company's operations, together with computers, to provide additional advisory-type services to clients.

Small businesses provide a wealth of opportunities for accounting services. The CGAAO noted that many small businesses organize their financial affairs literally in shoe boxes. These companies not only need management and financial advice, but also require on-going financial statements. As one accountant stated, by becoming involved in the ex post preparation of financial statements he is not heavily involved in forward planning. But the opportunities exist, and he is beginning to take advantage of them, in working with clients in planning future developments.

Another set of opportunities exist for more extensive marketing of the professional development seminars provided by the three accounting associations. Many of these seminars can prove to be quite valuable not only for members of the associations in Ontario, but also for accountants in other provinces and for managers of small and medium-sized businesses.

TRADE IN ACCOUNTING SERVICES

Interprovincial

There are no data available on the fees earned by Ontario-based accounting offices from services provided to clients outside the province. However, it is possible to gain some insights into the size of the accounting industry in Ontario relative to the size of the industry in the rest of Canada. Either 18 or 19 (depending on how one wants to treat the firm of Fuller Jenks Landau) of the 25 largest accounting firms in Canada have their head office in Ontario. Of course, many of these firms have regional offices in other parts of Canada to service the needs of their clients located in the other provinces. Thus, not all clients are served from the Ontario offices.

The study by Professors Bavishi and Wyman show that for all but one of the Canadian affiliates of the twelve largest international auditing firms, Ontario has between 41% and 65% of all the Canadian partners and between 17% and 75% of all the offices in Canada. These ratios are somewhat higher in most cases than the concentration of business activity in Ontario. The data in Table 7 reveal that Toronto ranked third among all cities in the world in terms of the total number of partners in accounting firms affiliated with the 12 largest international firms. Toronto had almost as many total partners as the next three largest Canadian cities combined (574 vs. 616 for Montreal, Vancouver and Calgary).

Finally, using taxation statistics for the 1982 tax year, we find that Ontario had 37% of the 10,675 number of individuals who listed their occupation as accountant. The acountants in Ontario earned $191 millions or 41% of the total earnings of accountants across Canada.

International

There are no data available as well on the international flow of accounting revenues. Thus, we need to resort to proxies to get an idea of the relative importance of the Ontario-based accounting industry in a global context. Table 7 showed that Toronto ranked third among all cities in the world in terms of the total number of partners of the 12 largest international firms. Excluding the firm of Grant Thornton International, the Ontario affiliates had between 2% and 11% of the total number of partners of the 12 largest firms, and between 1% and 5% of the total number of offices of these firms.

In 1981, the Big-9 had world-wide revenues of $7,606 millions U.S. In 1983, the Canadian affiliates of the Big-9 had total revenues of $941 millions Canadian. Furthermore according to the Bavishi and Wyman study, the Canadian affiliates had 11% of the total number of partners of the 12 largest international firms, and so ranked second in size among the 10 major countries. Only the U.S. had a larger proportion with 38%.

Barriers to Trade

The major non-tariff barriers to trade in the accounting industry are the non-transferability of Canadian accounting credentials to other jurisdictions and residency requirements by some states.

REGULATORY ENVIRONMENT

Existing Regulatory Environment

There is no federal act defining public accounting and requiring the licensing of public accountants. The regulation of the industry is a provincial responsibility. The accounting profession has been historically, and remains in several provinces, a "reserved title" profession whose participants have exclusive rights to use the titles bestowed by the organizations of which they are members, but do not have exclusive rights to practise; that is, they are not licensed. Other than in what is called public accounting, the profession remains unlicensed in Ontario. Accountants who perform services in the areas of auditing preparation of unaudited financial statements and issuing opinions on financial statements (what are referred to as the attestation functions) are required to be licensed.

The licensed practice of public accounting in Ontario began with the PAA of 1950. There has been no major revision of the act since 1962. The 1962 amendments effectively restricted access to the public accountant's license to members of the qualifying body (essentially the ICAO) and to the CGAAO members and students who were active in the Association prior to April 1, 1962.

There is one explicit provision for governmental review in the PAA. It is in Section 31, paragraph 3, which states: "The Lieutenant Governor in Council may annul any regulation made by the Council under this Act."

Objectives of Regulation

The principal objective is to maintain a high standard of quality for practitioners of public accounting so as to enhance the credibility of their opinions and ensure that third parties have access to the best information available. In essence, a high standard for public accounting is necessary in order to reinforce the integrity and efficiency of the financial system.

Other Relevant Aspects of Regulation

There are several federal and provincial statutes that require federally or provincially incorporated companies, beyond a certain size, to appoint auditors to report to the shareholders and in certain cases government regulators on the financial statements submitted by the directors of the companies (e.g., The Ontario Business Corporations Act, The Loan and Trust Corporations Act, Canada Corporations Act, Canada Business Corporations Act, Trust Companies Act, Loan Companies Act, Bank Act, Investment Companies Act). In addition, there are provincial statutory requirements for audits of certain charitable organizations. While there generally are no specific provisions in the federal and provincial corporations laws that the auditor must be a CA, the majority of companies, including practically all large publicly owned ones (even ones with their headquarters in a province with no regulation of public accounting - New Brunswick, Manitoba, Saskatchewan and Alberta) appoint CAs as auditors.

For the public sale of securities in Ontario, the Ontario Securities Commission requires that prospectuses conform with the securities act under which the companies were incorporated and with the standards of disclosure set by the OSC itself. These standards correspond closely to those set out in the Accounting and Auditing Handbook of the CICA. These standards require the inclusion of audited balance sheets. Furthermore, for listing on the TSE, companies must present audited financial statements in addition to meeting various other requirements. Industrial and investment companies must also furnish the names and qualifications of their auditors.

All three accounting designations (CA, CGA, CMA) are national in scope and individuals who are members of one provincial organization typically have little difficulty in obtaining membership with other provincial associations and hence in practicing in other provinces. The assessment of foreign qualifications for the practice of public accounting in Ontario is performed by the CICA. No formal reciprocity exists with foreign accountancy bodies, but the CICA exempts from final examinations applicants from the Institutes of Chartered Accountants in England and Wales, Scotland, Ireland, Australia, South Africa and New Zealand, and Certified Public Accountants of the U.S. However, the exemptions do not enable accountants from these other countries to practice public accounting in Ontario on an on-going basis if they continue to be citizens and residents of these other countries.

GOVERNMENT ASSISTANCE

The annual federal and provincial budgets, by generally including new tax measures and interpretations, add to the complexity of the tax system and thus create additional demands for the services of accountants. The federal and provincial statutes requiring mandatory audits also create a demand for accounting services. Finally, although the tax deductibility of accounting fees does not provide any special advantage for accountants, it should be kept in mind that, as in most cases, the after-tax cost of these fees is higher for small businesses and businesses in non-taxable positions.

GOVERNMENT POLICY PROPOSALS

As pointed out above, The Public Accountancy Act in Ontario has not undergone any major revision since 1962. But the Professional Organizations Committee, appointed by the Attorney General of Ontario, did put forth some proposals, in 1980, for amending this act. The key recommendations made by this committee were as follows:

- public accounting as currently defined in the act should continue to be a licensed activity;

- a new Public Accounting Licensing Admission Board would be created to administer the licensing admission exam;

- this Board would include representatives from the SMAO and CGAAO as minority members;

- individuals who issue statements, opinions, reports or certificates that lie outside the scope of licensed practice should accompany these statements with a disclaimer.

INDUSTRY RECOMMENDATIONS

ICAO

1. Maintain a single standard for the practice of public accounting and introduce no major changes into the existing act.

2. The government should undertake initiatives to produce a greater computer literacy among the citizens of the province and to continually upgrade their capabilities. These initiatives will require different programs geared towards different age groups and levels of competency.

3. The government should move quickly to impose maximum settlements in liability suits.

4. One or more Schools of Accountancy should be established at universities across the province. To ensure that there will be an adequate number of properly trained professors for the new schools, graduate programs in accounting should receive increased funding; and as an interim measure, Ontario students pursuing a Ph.D in accounting at a recognized university outside the province should receive some assistance.

5. While the ICAO does not favour the creation of professional supermarkets, the Institute is willing to explore the possibility of having public accounting firms include up to 20% of their members/partners from other professions.

6. A free trade arrangement with the U.S. should not permit U.S. accountants to be able to come into Ontario whenever they desire in order to provide public accounting services.

CGAAO

1. Amend the current rules governing the qualifications for the licensing of public accountants. Include the CGAAO certification program as an alternative route for licensing.

2. The Ministers of Education and Universities and Colleges should permit CGA students to have access to the computer hardware in the school systems in order to get a more thorough and lower cost computer training.

3. Continue to promote the growth of small businesses in Ontario.

4. Provide incentives, if necessary, to small businesses to use the services of accountants.

TABLE 1
OFFICES OF ACCOUNTANTS, BY SIZE AND LOCATION, ONTARIO; 1984

Office Size	Population Centre					
	1	2	3	4	Total	
1 - 2 established	31	21	9	14	75	16.1%*
1 - 2 recent	27	10	4	14	55	11.8
3 - 6	42	33	22	31	128	27.4
7 - 20	42	45	26	16	129	27.6
21 - 40	14	26	11	3	54	11.6
40 - 100	8	9	1	-	18	3.9
100 +	8	-	-	-	8	1.7
Total by location	172	144	73	78	467	
	36.8%*	30.8	15.6	16.7		

1: Metro Toronto.
2: 100,000 and up, excluding Metro Toronto.
3: 25,000 to 100,000.
4: Under 25,000.
*: Proportion of total number of offices.
Established: In existence for three or more years.

Source: ICAO, Biennial Compensation and Billing Survey, 1984.

TABLE 2
AVERAGE NUMBER OF INDIVIDUALS PER OFFICE, BY FIRM SIZE, ONTARIO; 1984

Office Size	CAs	Students	Others	Total
1 - 2 established	1.01	0.0	0.78	1.79
1 - 2 recent	1.02	0.04	0.64	1.70
3 - 6	1.65	0.22	2.53	4.40
7 - 20	4.10	1.87	5.27	11.24
21 - 40	11.23	7.21	10.54	28.98
40 - 100	22.33	15.13	16.20	53.66
100 +	100.51	64.62	66.87	232.00

Source: See table 2.

TABLE 3
SELECTED CHARACTERISTICS OF 15 LARGEST PUBLIC ACCOUNTING FIRMS IN CANADA, 1985

Firm (head office)	1	2	3	4	5	6
Clarkson Gordon (Toronto)	2450	$175.0	361	23	70	AY *
Thorne Riddell (Toronto)	2235	150.0	324	49	46.5	KMG *
Touche Ross (Toronto)	1691	110.1	302	40	46	TR *
Coopers Lybrand (Toronto)	1670	126.2	250	21	60.5	CL *
Price Waterhouse (Toronto)	1535	112.4	191	22	81	PW *
Peat Marwick Mitchell (Tor)	1316	94.5	214	24	50.5	PMM *
Deloitte Haskins Sells (Tor)	1247	88.4	212	30	38	DHS *
Collins Barrow Maheu (Mont)	1166	51.0	160	34	5.5	FMI
Doane Raymond (Ottawa)	1150	74.5	223	65	6	GTI
Ward Mallette (Toronto)	1018	69.6	205	62	4	BDO
Samson Belair (Montreal)	711	48.2	124	24	10	
Ernst Whinney (Toronto)	651	45.0	108	23	16	EW *
Dunwoody (Toronto)	554	n.a.	124	31	2	
Arthur Andersen (Toronto)	463	39.0	32	7	29	AA *
Pannell Kerr Forster (Tor)	371	n.a.	76	19	2	

1: Number of professional staff including partners.
2: Revenues, $ millions.
3: Number of partners.
4: Number of offices in Canada.
5: Number of the Financial Post's 500 audited, fiscal year 1983.
6: International affiliation; see table 6 for names.
*: One of the Big-9 international auditing firms.

Source: The Financial Post 500, Summer 1985.

TABLE 4
NUMBER OF PARTNERS IN 12 INTERNATIONAL AUDITING FIRMS; 1982

Firm	Total	U.S.		Canada	
Big-9					
Arthur Andersen (AA) *	1493	1028	68.9% **	46	3.1% **
Arthur Young (AY) *	1964	711	36.2	322	16.4
Coopers Lybrand (CL) *	2282	869	38.1	253	11.1
Deloitte Haskins Sells (DHS) *	2149	711	33.1	230	10.7
Ernst Whinney (EW) *	1528	790	51.7	69	4.5
Klynveld Main Goerdler (KMG)	2308	553	24.0	322	14.0
Peat Marwick Mitchell (PMM)*	2197	1186	54.0	207	9.4
Price Waterhouse (PW) *	1728	553	32.0	184	10.6
Touche Ross (TR) *	2054	711	34.6	230	11.2
Second Tier					
Binder Dijker Otte (BDO)	920	158	17.2	184	20.0
Grant Thornton (GTI)	1206	395	32.8	184	15.3
Horwath and Horwath (HHI)*	711	316	44.4	69	9.7

*: World head office located in the U.S.

**: Country's share of total number of partners.

Source: Vinod B. Bavishi and Harold E. Wyman, Who Audits the World, (University of Connecticut)

ADVERTISING SERVICES

DEFINITION

Statistics Canada defines the advertising services (1970 SIC 862) as:

> Establishments primarily engaged in placing advertising in various types of media such as newspaper, radio, television, on a commission or fee basis; preparing and presenting outdoor poster displays and billboards; advertising on subway cars and buses, and other advertising services, such as aerial advertising, circular and handbill distribution, shopping news service, window dressing, display service. Media representatives, sign-painting shops, own account commercial artists, and direct mail and door-to-door advertisng firms are also included in this industry.

In the past decade many advertising agencies have expanded the scope of their activities to become "communications" firms which also offer such services as public relations and other non-advertising forms of commercial communications. Those firms that continue to be classified as advertising firms will be included in this study.

INDUSTRY STRUCTURE

Number of Establishments

- The Business Microdata Integration & Analysis data (Special Data) indicates that in 1983 there were 1,266 establishments in Ontario providing advertising services.* (This includes commercial artists, photographers as well as ad agencies). This represented 47.6 per cent of the Canadian total.

- There are no reliable data available on the number of advertising agencies in Toronto, let alone Ontario or Canada. Industry representatives estimate that there may be as many as 500 ad agencies in Toronto alone.

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* Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1976-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

Employment

- The Special Data records that in 1983, advertising services accounted for 9,381 person years in Ontario.

- This represented 58 per cent of the Canadian total.

Revenue

- There is no official industry breakdown of revenues by province provided by either Statistics Canada or the industry associations.

- According to the Maclean Hunter annual report on Advertising Revenues in Canada, gross advertising industry revenues in 1985 for the Canadian industry were $6.5 billion of which $403 million, or 6.2%, went to advertising agencies and the remaining $6.09 billion to media.

- Of the media's advertising revenues, the largest share, 24.7% was taken by daily newspapers. Catalogue and direct mail accounted for 22.5%, television took 17.1%, and radio 9.4%.

- In 1985, advertising revenues accounted for 1.44% of Gross National Product.

Births and Deaths

- Between 1978 and 1983, the Special Data indicates that 724 firms were established and 431 firms exited the Ontario advertising industry.

- 97% of the births and 95% of deaths involved small firms with fewer than 19 persons each. There have been few changes at the upper end of the scale.

Provincial Distribution of Firms

- The vast majority of advertising agencies are concentrated in southern Ontario, particularly in Toronto. MacLean Hunter recorded 250 advertising agencies in Toronto. Excluding Toronto, southern Ontario had 45 ad agencies of which 16 were in Ottawa. Some of the firms located in

Hamilton and Ottawa were branches of Toronto firms. On the whole, these southern Ontario firms were small independent agencies serving a local clientele. This was also the case in Northern Ontario where there are four independent advertising agencies (Thunder Bay 2, Sudbury 1, North Bay 1) serving a local clientele.

Type of Customer

- Large firms that have head offices in Toronto and that require full-service advertising agencies tend to be serviced by the large Toronto-based agencies. Among the clients of the ten largest ad agencies (head offices in Toronto) are the Bank of Montreal, Ford, Goodyear, Kraft, Pepsi, Canada Packers, Imperial Oil, Molson, Bell Canada, CP Air, General Foods, Campbell, Royal Bank and Air Canada.

- The clients of ad agencies outside of Toronto include municipal governments, chambers of commerce, and other local businesses. Branches of the Ontario Government (Ministry of Natural Resources, Northern Affairs) are clients of northern Ontario ad agencies. On the whole clients of small town ad agencies tend themselves to be small, local businesses.

- Government contracts are almost always awarded to Canadian-owned firms. The federal government is the number one advertiser with ad expenditures in 1984 of $95.8 million. Ontario ranked sixth with $32.1 million.

Firm Size

- The Special Data indicates that in Ontario the vast majority of the firms are small businesses employing fewer than 19 persons each. However, the major share of employment is attributed to the few large firms operating in Ontario.

- In 1983, 94% of the 1,266 establishments engaged in advertising in Ontario employed fewer than 19 persons each. These small firms accounted for 40% of employment in this industry.

- Firms employing between 20 to 99 people accounted for only 4.1% of firms and 17.2% of employment.

- In the final category, approximately 1.7% of the firms in Ontario employed over 100 persons. These 22 firms accounted for approximately 43% of the provinces employment in this industry.

Market Share

- As revenue figures for Ontario are unavailable it is not possible to quantitatively define a relationship between firm size and market share.

- However, as 22 out of the 26 firms in Canada that employ more than 100 persons are in Ontario, some tentative statements can be made regarding market share.

- According to Financial Post data, 14 of the 15 largest ad agencies in Canada have head offices in Toronto. These 14 firms accounted for $224.5 million or 55.7% of the revenues of all ad agencies in 1984. Of course, part of this also represents revenues generated by branches in other provinces. But given Ontario's share of employees and number of firms in the industry, one could tentatively conclude that Ontario firms accounted for approximately 50 - 60% of the Canadian market share and that the large firms in Ontario (over 100 employees each) accounted for at least 60% of the ad agency revenues generated in this province.

Foreign Ownership

- In 1960 there were only three U.S. agencies in the top 15 in Canada.

- In 1985 eight of the top 15 and 11 of the top 20 agencies were foreign owned. In addition, some Canadian agencies, such as Ronalds-Reynolds & Co. have close working relationships with foreign firms.

    - The eight foreign firms in the top 15 accounted for almost half of the revenues (49 per cent) generated by the top 15 firms.

    - The foreign firms include J. Walter Thompson Co. (in first place), Ogilvy & Mather Ltd. (fifth place), Young & Rubican (seventh place), Baker Lovick Ltd. (eight place) and McCann-Erickson Advertising of Canada Ltd. (ninth place).

Trends

Employment

- The Special Data indicates that employment in advertising increased substantially between 1978 and 1981 from 7,755 to 9,692, an increase of 25%. However, there was a slight decline from 1981 to 1983 of 2.3%.

Number of Firms

- There was a 30% growth in the number of legal establishments between 1978 and 1983. The number of firms increased from 973 in 1978 to 1,266 in 1983.

Revenue

- According to the Advertising Revenue report, advertising revenues have increased steadily over the last 15 years increasing by almost 500% between 1970 and 1985.

- Between 1984 and 1985, advertising revenues increased by 8.7% from \$6 billion to \$6.5 billion.

- The ad agency share of advertising revenues between 1965 - 1985 remained consistent at around 6% each year.

- Within the media, television has increased its revenue share from 13.1% in 1970 to 17.3% in 1984. The dailies share of advertising revenues in the same time period decreased from 28.4% to 24.4%.

GNP

- Advertising revenues as a per cent of Gross National Product have remained fairly consistent, ranging between 1.24% to 1.44%, from 1965 to 1985. (Maclean Hunter)

Type of Customer

- Over the past year a large number of major foreign advertisers have moved their accounts from Canadian-controlled ad agencies to the Canadian branch of the advertising agency which services their parent firm. Among the advertisers that have switched are Sterling Products, Wendy's Restaurant, Thomas J. Lipton, Commodore Business Machines, Continental Air Lines, American Motors, Speedy Muffler King and Canada Dry. This multinational realignment of accounts can lead to Canadian-controlled firms being stripped of their packaged goods accounts and left mainly with government and utility accounts.

KEY ECONOMIC FACTORS & INDUSTRY OUTLOOK

Advertising agencies are part of a dynamic sector in which competitive forces are altering the industry structure. The past few years have seen advertising agencies amalgamating, consolidating and expanding into new areas such as public relations, media buying and direct market promotion in a bid for a larger share of the market. Firms have grown by merging with other small to medium sized firms. Young firms have emerged which have challenged the status quo by aggressively seeking new clients.

The health of the advertising industry is closely linked with that of the general economy. However, the impact on the advertising industry is somewhat delayed. For example, as the recession began manufacturers and retailers with high inventories actually increased their advertising expenditures. As the recession deepened and even after it passed, advertising expenditures were reduced. As a result advertising agencies were forced to reduce costs and since 60% of the budget is usually spent on staff, there was a reduction in employment. It was only in 1984 that the advertising industry began to revive. According to Maclean Hunter data, growth in real terms in the advertising industry in 1985 was 4%. This paralleled the general growth of the economy and links the outlook for the advertising industry with that of the economy in general.

While employment growth in advertising in general can be expected to keep pace with the economy, the situation for ad agencies does differ. Productivity improvements and the spiralling costs of media time and space have combined to produce relatively static growth rates in employment at advertising agencies. Thus the outlook for employment growth in advertising agencies is not promising.

The structure of the industry in terms of its foreign ownership and clientele is undergoing some major changes. The crucial issue facing the industry today is the multinational realignment of accounts. The switch to the Canadian branches of parent-firm advertising agencies is apparently not due to poor performance by Canadian-controlled agencies but rather to policy decisions to rationalize advertising expenditures by the parent firm. As a result, with only a few exceptions, Canadian-controlled firms have been virtually excluded from new multinational advertising business opportunities over the past few years.

Should this trend towards the multinational realignment of accounts continue, the outlook for Canadian-controlled firms would be grim. It is possible that in a few years there would be very few Canadian-controlled firms left among the top 15 advertising agencies. Canadian-controlled firms would be left with government and utility accounts while the packaged goods business would be taken over by the multinationals. It is possible that the trend in the multinational realignment of accounts may be reversed if diseconomies of scale eventually result. However, the success of Canadian firms will depend in either case on their ability to respond to the changing demands of an increasingly aggressive industry environment.

STATUS IN OUTSIDE MARKETS

The top ten firms in Ontario have, among them, 23 branches in other provinces. These branches are located in urban centres, mainly Montreal, Calgary and Vancouver. The main method of operation appears to be the establishment of branches in the various centres. The exception is Montreal where affiliation seems to be the preferred route.

Ontario, and particularly Toronto, is the location of a majority of head offices because a great deal of economic activity is concentrated here. Branches in other major economic centres are required because it is virtually impossible for an advertising firm to regularly service a market without a local presence. This also explains the presence of other provincial and foreign firms in Ontario.

The international activity of Ontario firms does not appear to be significant. According to industry representatives there are very few Ontario firms with branches outside Canada. The data that do exist on the international activity of Canadian firms suggest that there is not much trade conducted in advertising services. However, there are some interesting differences in the international activity between Canadian and foreign branch plants.

According to Statistics Canada data on trade in services, advertising firms in Canada exported $46 million worth of advertising services in 1984 and imported $64 million, resulting in a balance of payments deficit of $18 million. The U.S. accounted for approximately 74% of Canadian service exports and 93.8% of all service imports. Canadian-controlled firms accounted for 63% of all exports. Firms controlled by other than the U.S. accounted for 34.8% of all exports. U.S.-controlled firms, which represent a signficant portion of the advertising industry in Canada, accounted for only 2.2% of all exports but 46.9% of all imports. Canadian firms accounted for 45.3% of all imports. In contrast to the import situation, exports of advertising services are mainly to non-affiliates. In 1984, approximately 63% of all exports were to non-affiliates. However, with U.S. controlled firms, all of their exports were to affiliates. None of the Canadian-controlled exports were to affiliates.

The outlook for the international expansion of Canadian firms is uncertain. The branch route has been tried, (recently by Hayhurst Advertising) and has not been very successful. However, it can be expected that as the integration of the international economy proceeds greater links will be forged between Canadian and foreign firms. These links will most likely be realized through affiliation rather than branch plants.

REGULATORY ENVIRONMENT

There are no regulations directed at advertising agencies per se. Anyone may establish an ad agency and no special licences or education are required to engage in advertising. However, a wide array of regulations impact on the advertising industry.

The sector is self regulated in that an established set of advertising standards and responsibilities is outlined by the industry. Some of these standards are supported by government regulations that place restrictions on the various product categories advertised. For example, tobacco ads are prohibited on television and so are any ads which depict people actually drinking alcohol. The industry must also abide by the Consumer Protection Act and the Combines legislation. In addition the industry is heavily involved with the CRTC media regulations.

There are many regulations that limit foreign advertisements entering Canada. These trade barriers include:

- Radio TV, or other commercials on tourism are subject to local production requirements and discriminatory treatment.
- Customs regulations provide for the seizure of any foreign publication coming into Canada in which more than 5% of the advertising space contains advertising directed to Canada.
- The government has established voluntary guidelines concerning the percentage of radio and TV commercials that ought to be produced in Canada.
- Television commercials may be imported into Canada only if they meet all clearance requirements by government and the networks.
- Various customs duties exist on different types of advertising materials (See Appendix).

ASSISTANCE CURRENTLY RECEIVED

There are no federal or provincial programs aimed specifically at the advertising industry per se. However, some government programs affect the industry.

In 1976 Canada adopted a tax provision denying Canadian enterprises tax deductions for the cost of advertising in foreign media when the advertising is directed primarily at Canadians. The U.S. estimates that American firms lose $20 million to $40 million in advertising revenue each year as a result of this measure.

Since government advertising is directed towards Canadian firms, it can be regarded as a form of procurement that assists the industry. The federal government is by far the largest advertiser in the country, with ad expenditures in 1984 of $95.8 million. Second place is occupied by Procter & Gamble Inc. with ad expenditures of $46.3 million. The Ontario Government placed sixth with $32.1 million and Quebec is fifteenth with $17.8 million.

STATED POLICY POSITIONS

Industry Position

No industry wide position has been clearly articulated at this time on issues of concern to the advertising industry.

Consumer Position

In their presentation to the Ontario Select Committee on Free Trade, the Association of Canadian Advertisers (which represents the clients of ad agencies) said that the legislation which eliminated advertising as a tax-deductible expense when placed in foreign media had produced mixed results. While the domestic ad agencies and media had benefitted, the Association maintained that it had resulted in increased costs to advertisers. They did not take a position on the pros and cons of free trade but urged that the costs to all parties be carefully considered.

GOVERNMENT POLICY STANCE/PROPOSAL

There has been no set policy at either the federal or provincial level directed specifically at the domestic advertising industry. Attention has, however, been focussed on advertising as a result of the push towards free trade. In the 1982 background studies of the Task Force on Trade in services, advertising was placed within the cultural section because it was considered to have an obvious link with most other cultural media and because it was also regarded as a factor which shapes the culture of a nation. In its final report the Task Force recommended against taking any steps towards free trade in this area because it would require the elimination of several existing government policies which would then result in contradicting the Canadian government's stand on cultural issues. Of course, the cultural issues revolved mainly around films, books and art but the general attitude did extend to advertising as well. This view on advertising was presented to GATT in 1984 in the final report of the Task Force.

Advertising has recently been placed on the GATT agenda for inclusion within the next round of trade negotiations. Other service sectors which were included are computer services, maintenance services and government procurement.

20 LEADING ADVERTISING AGENCIES IN CANADA

The source of the following information is Marketing, December 16, 1985 issue, in which the top 100 agencies are listed. Agencies were asked by Marketing to calculate their billings according to the following criteria: "Capitalized billings refer to total billings - from all fees and commissions - based on a standard 15% rating on brand assignments and a capitalization of the income portion of agency-of-record assignments. In order to make the capitalized billings figure a true reflection of agency size, we have asked agencies not to include income from subsidiary companies or separate, satellite agencies owned wholly or in part by the agency. But billings from the agency's branch offices are included. In the case of joint ownership of a branch office, only the agency's percentage ownership is included."

	(Millions of dollars) 1985 Billings	1984 Billings
J. Walter Thompson Company	$ 164.0	$157.0
MacLaren Advertising	163.0	n/a
McKim Advertising Ltd.	160.0	150.0
Ogilvy & Mather Advertising	135.0	102.0
Saffer Cravit ¢ Freedman Advertising Ltd.	110.0	92.0
Vickers and Benson Companies Ltd. (1)	104.0 (1)	87.0
Baker Lovick Ltd.	103.0	95.0
Foster Advertising Limited	102.0 (2)	n/a
Cossette Communication - Marketing	90.5	81.8
McCann-Erickson Advertising of Canada Ltd.	90.0	85.0
Ronalds-Reynolds & Company Ltd.	80.1	78.0
D'Arcy Masius Benton & Bowles	75.0	n/a
Saatchi & Saatchi Company Hayhurst Ltd.	75.0	70.0
Leo Burnett Company Ltd.	72.0	66.0
Scali-McCabe Sloves (Canada) Ltd.	72.0	31.0
Grey Canada	71.0	53.0
Ted Bates Advertising Inc.	70.6	58.2
BCP Strategy-Creativity Inc.	65.2	44.6
Young & Rubicam Ltd.	62.1	55.6
Foote Cone & Belding Advertising Ltd.	48.0	47.0

(1) Includes $8 million billings for Glowinsky & Gee/Vickers & Benson Advertising Inc.

(2) This figure does not include billings from any other Sherwood subsidiary.

20 LEADING ADVERTISERS IN 1984

The following information was compiled by Media Measurement Services Inc., 840 Pape Ave., Toronto, Ontario M4K 3T6. Further information, by brand and media used, may be obtained on a fee basis from this source. The report "National Advertising Expenditures" includes national ad expenditures by over 2,800 organizations in the following media: daily newspapers, consumer magazines, farm paper, radio and television.

	1984 Ad Expenditures ($000's)
Government of Canada	95,767.9
Procter & Gamble Inc.	46,339.1
John Labatt Limited	37,581.2
The Molson Companies	35,297.8
Dart & Kraft Ltd.	32,489.8
Ontario Government	32,086.4
Rothmans of Canada Inc.	31,045.6
General Motors of Canada Ltd.	30,011.3
Nabisco Brands	24,471.9
General Foods Inc.	22,945.6
Unilever Inc.	21,830.1
Ford Motor Co. of Canada Ltd.	20,364.3
American Home Products Ltd.	18,327.3
Kellogg Salada Canada Inc.	17,787.4
Quebec Government	17,781.2
Chrysler Canada Ltd.	17,640.8
Canadian Pacific Ltd.	17,341.8
Imperial Oil Ltd.	15,580.6
Warner Lambert Canada Ltd.	15,500.6
Coca Cola Limited	14,335.0

GROSS ADVERTISING REVENUES IN CANADA

1985-1986 (in thousands of dollars)

	Net Advtg. Revenues All Media	Ad Agency Revenues on Ad Billings (1)	Gross Ad. Revenues
1965	741,743	56,498	789,241
1966	811,559	61,228	872,787
1967	872,976	67,872	940,848
1968	914,562	67,833	982,395
1969	1,014,383	73,225	1,087,608
1970	1,060,084	78,067	1,138,151
1971	1,144,227	83,550*	1,227,727
1972	1,302,905	87,712	1,390,617
1973	1,479,421	99,026	1,578,447
1974	1,720,665	109,063	1,829,728
1975	1,938,483	116,213	2,054,696
1976	2,243,756	143,472	2,387,228
1977	2,458,006	157,988	2,615,994
1978	2,790,815	182,000	2,972,815
1979	3,219,166	213,000	3,432,166
1980	3,763,436	248,000	4,011,436
1981	4,331,853	287,000	4,618,853
1982	4,622,442	310,000	4,932,442
1983	4,977,066	334,000	5,311,066
1984p	5,620,132	380,000	6,000,132
1985*	6,117,000	403,000	6,520,000
1986*	6,575,000	433,000	7,006,000

p - Preliminary

* - Maclean Hunter Research Bureau estimates

(1) - Effective 1977, Statistics Canada discontinued reporting Advertising Agency data. In lieu, Maclean Hunter Research Bureau makes estimates based on annual percent change of the "national" component of media advertising revenues.

Source: Statistics Canada

Sources

Association of Canadian Advertisers. John Foss, 964-3800

Institute of Canadian Advertisers. Keith McKerracher, 422 - 1396.

Advertising Revenues In Canada, Maclean Hunter Research Bureau, January 1986.

Business Microdata Integration and Analysis. Statistics Canada (Special Data).

Marketing. March 11, 1985. Maclean Hunter Limited.

Marketing. December 16, 1985. Maclean Hunter Limited.

Financial Post 500. Summer 1985. Maclean Hunter Limited.

Statistics Canada, Canada's International Trade In Services (67 - 510 Occasional). June 1986.

Canadian Advertising Rates & Data, Vol 58. Num. 11, November 1985. Maclean Hunter.

ARCHITECTS

DEFINITION

Statistics Canada defines architectural firms as "establishments primarily engaged in planning and designing buildings and other structures, and having at least one registered architect on staff."

Professional architects employed either by governments or private industry are excluded, as are those firms whose primary source of revenue is derived from other activities such as construction or management consulting. Offices providing both architectural and engineering services are defined according to the activity that generates the most fee income.

INDUSTRY STATUS IN ONTARIO

According to Statistics Canada Catalogue 63-537,[1] there were 486 offices of architects in Ontario in 1982, accounting for 33 per cent of the Canadian total of 1,470. These Ontario firms had 2,279 paid employees plus an additional 755 working proprietors.

In 1977, there were 442 offices of architects with 2,358 paid employees and 725 working proprietors. Thus, between 1977 and 1982, there was a 10.0 per cent increase in the number of architects' offices in Ontario, but a 3.4 per cent decrease in the number of paid employees.[2]

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[1] In 1977, Statistics Canada published Catalogue 63-534 Occasional: Offices of Architects. At that time, Offices of Architects was classified as (1970) SIC 863. Under the 1980 revision of the Standard Industrial Classification, Offices of Architects was grouped with other professionals in a new category, SIC 775 - Architectural, Engineering and Other Scientific and Technical Services. Catalogue 63-537 Occasional (1982) provides data on SIC 775, but in it data on Offices of Architects are separated out. Statistics Canada collected data from all firms having at least one registered architect on staff, with earnings of $5,000 or more from the provision of architectural services.

[2] Another source of data is Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study. (Hereafter referred to as the Statistics Canada Special Data.) This source indicates that in 1983 Ontario had 400 offices of architects and an employment level of 1,868. More precisely, these are "full-year equivalent person-years" of employment, which are calculated by dividing the annual payroll figure for all architectural firms by an estimated annual average earnings figure from Statistics Canada's monthly survey of employment.

Data are also available on the distribution of architectural firms in Ontario according to fee income. These data show that the most heavily represented fee category is "less than $50,000", but that other categories are also well represented. The distribution for 1982 is presented in Table 1.[1]

Table 1

	Number of Firms	Per Cent of Firms
Less than $50,000	150	31
50,000 - 99,999	72	15
100,000 - 199,999	94	19
200,000 - 499,999	102	21
500,000 - 999,999	33	7
1,000,000 - 4,999,999	31	6
5,000,000 and over	4	1
Total	486	100

Source: Statistics Canada Catalogue 63-537 Occasional. Comparable data for 1977 are not available in Catalogue 63-534.

A 1985 report on the architectural profession in Canada, entitled Managing in Difficult Times,[2] discussed the internal restructuring of the profession nationwide. It noted that, between 1977 and 1982, the very large and very small firms in the profession grew in importance, both in terms of fee income and employment, but that, overall, the medium-sized firms still dominate the profession.[1] Thus, in 1977, at the national level, the eight largest firms in the profession earned 10 per cent of total fee income and employed 7 per cent of total employees; in 1982, the nine largest firms earned 15 per cent of the total fee income and employed 10 per cent of total employees. More than half of these large firms are located in Ontario. Small firms in 1982 accounted for 15 per cent of total fee income and 27 per cent of total employees, up from 9 per cent and 16 per cent, respectively, in 1977. Medium-sized firms accounted for about one-third of the total number of firms Canada-wide, but almost two-thirds of total employment and just over 70 per cent of total fee income. Despite the predominance of medium-sized firms, their share of the profession's total employment and fee income fell between 1977 and 1982. (see Exhibit I in Appendix)

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[1] Also, it can be easily seen based on data in Table 1 that small firms do not account for most fee income: total fee income for the first two categories calculated using the maximum amount in each range is substantially less than total fee income for the following two categories calculated using the minimum amount in each range.

[2] Prepared by Peter Barnard Associates for the Department of Regional Industrial Expansion in co-operation with the Royal Architectural Institute of Canada, March 1985.

OWNERSHIP

All 486 architectural establishments in Ontario in 1982 were unincorporated businesses. This was the result of a stipulation in the Architects Act (Revised Statutes of Ontario 1970) that no corporation could be granted membership in the Ontario Association of Architects or be licensed to practise architecture in Ontario.

Under the new Architects Act, which received Royal Assent on May 1, 1984 and came into effect on September 1, 1984, these provisions were changed so that incorporation[2] is now possible. In order to qualify for incorporation, a majority of the directors of the corporation must be members of the Ontario Association of Architects, or members of the Ontario Association of Architects and members of the Association of Professional Engineeers of Ontario; furthermore, a majority of each class of shares of the corporation must be owned by members of the above-mentioned associations and by employees of the corporation.

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[1] Managing in Difficult Times defines firm size for 1982 on the basis of the following fee incomes: small - under $200,000; medium - $200,000 to $4.9 million; and large - $5 million and over.

[2] The Act allows a corporation or partnership of corporations to engage in the practice of architecture.

To become a member of the Association of Architects, an individual must be a citizen of Canada, or have the status of a permanent resident of Canada or be a member of an organization of architects that is recognized by the Council of the Association.[1]

Given these restrictions, the issue of foreign ownership and control of the architectural 'industry' does not arise.

REVENUES

In 1982 the fee income (revenue) of architectural offices in Ontario was $174,450,000, which represented 37 per cent of the Canadian total of $469,336,000. Comparable figures for 1977 are $104,764,000, 33 per cent, and $314,530,000.[2] Thus, over the five-year period, fee income increased by 67 per cent in Ontario and 49 per cent nationwide.

Nevertheless, Managing in Difficult Times notes that "... in 1984 real fee income to architectural firms in Canada was down 12 per cent from 1977 and 20 per cent from the most recent peak year of 1981. While data are imprecise, real income in 1984 is also probably 20 per cent lower than in the late 1960's, the high point of major institutional building in Canada." (See Exhibit 2 in Appendix)

Finally, it should be pointed out that, while the value-added to the Canadian economy by architects has increased substantially since 1971, from $74.6 million to $278.2 million in 1983, its relative contribution, as measured by its share of Gross Domestic Product (GDP), has declined marginally, from .09 per cent in 1971 to .08 per cent in 1983.[3] The very small share of GDP accounted for by architects to begin with should also be noted.

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1. Under the old Architects Act an individual had to be a British subject (or intend to become one) and be domiciled in Ontario in order to become a member of the Association.

2. Statistics Canada, Catalogues 63-537 and 63-534. These figures include fee income from both Canadian and foreign projects.

3. Data provided over the phone by Statistics Canada.

BIRTHS AND DEATHS

According to the Statistics Canada Special Data, between 1978 and 1983, 132 architectural firms in Ontario closed while 184 opened, for a net gain of 52 firms and an increase in the total number of firms from 348 to 400.

The same source indicates that at the national level the number of architectural offices increased by 308 between 1978 and 1983, from 989 to 1,297, the result of 659 births and 351 deaths.[1]

GEOGRAPHIC DISTRIBUTION

In the late 1970s the Professional Organizations Committee, established by the Attorney General of Ontario, determined that 55 per cent of architectural firms in Ontario were located in cities of more than 500,000 population (i.e. Toronto and Ottawa-Carleton).[2] Another 28 per cent of the firms were located in cities in the 100,000 - 500,000 population range. Architectural firms were more concentrated in large cities than was the population in general.

When the size of these firms was also taken into account, the concentration of firms in large cities was even more pronounced: 65 per cent were in cities with a population greater than 500,000.[3]

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1. Managing in Difficult Times notes that, at the national level, the number of architectural firms rose from 1,300 to approximately 1,800 between 1977 and 1984. These figures are higher than those presented in the Statistics Canada Special Data (989 in 1978 and 1,297 in 1983). Statistics Canada Catalogue 63-534 indicates that there were 1,283 architectural firms in Canada in 1977; this is consistent with the figure of 1,300. The 1984 figure of 1,800 cited here was derived by grossing up the 1982 Statistics Canada figure of 1,470 firms (Catalogue 63-537) based on assumptions about the proliferation of small firms in the architectural profession between 1982 and 1984.

2. An Analysis of the Practice of Architecture and Engineering in Ontario, prepared by Donald N. Dewees, Stanley M. Makuch, and Alan Waterhouse for The Professional Organizations Committee, 1978.

3. A slightly lower per cent (25%) were in the 100,000 - 500,000 population size range. There may have been some bias toward larger cities if firms in suburban municipalities mistakenly identified themselves with the larger central city.

A third locational index, based on postal code data, indicated that 64 per cent of architectural firms in Ontario were located in Metropolitan Toronto (69 per cent when firm size was taken into account). Another 15 per cent were located in Central Ontario around Toronto.[1]

CUSTOMER COMPOSITION

Managing in Difficult Times noted that public sector work has grown in importance for architectural firms in Canada from 40 per cent of total fees in 1977 to an estimated 50 per cent in 1985.[2] As would be expected, public sector work is particularly important in the case of institutional buildings. (See Exhibit 3 in Appendix).

In 1982, institutional fee income, along with commercial fee income, accounted for the largest shares (31% each) of total architectural fee income in Canada. However, between 1977 and 1982, fee income from institutional buildings, as well as from residential and industrial buildings, declined somewhat as a proportion of total fee income, while fee income from commercial buildings and renovations grew as a proportion of the total. (See Exhibit 4 in Appendix)

KEY ECONOMIC FACTORS

The architectural profession in Ontario and Canada is facing serious problems. First of all, it has been harmed by the economic conditions of recent years. The recession adversely affected construction, which in turn led to reduced fee income for architects in almost all building categories, with the exception of Renovations. (See Exhibit 5 in Appendix) It has been suggested that "... in the broad sense, as the economy goes so goes the architects' traditional business" (Managing in Difficult Times).

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1. Managing in Difficult Times does not discuss the geographical distribution of architectural firms.

2. This suggests that there has been a rather substantial shift in the last three years since, according to Statistics Canada Catalogue 63-537, government accounted for 42 per cent of fee income for offices of architects in 1982. In any case, the government share is substantial.

Since approximately half of private sector architectural work is dependent on government contracts, government policies have also had important effects on the architectural profession. Concerns in this regard include the cyclicality of government spending on construction, and complexities and inconsistencies in government tendering and procurement practices.

Architectural firms have also been faced with stiff competition from: integrated engineering/architectural firms; other professionals and service firms in the areas of construction and project management, space planning and interior design, landscaping, urban planning and management consulting; developers with in-house design staffs; and designers and technicians. It should be noted, however, that competition is more keenly felt in the peripheral services (such as space planning and interior design, and others noted above) than in the traditional 'core' architectural services (i.e. conceptual design, preparation of drawings and specifications, and contract administration).

Finally, some of the responsibility for the declining fortunes of the architectural profession must rest on the shoulders of the architects themselves. It has been suggested that the profession has not been responsive to new opportunities, has not marketed itself well and has created, through provincial associations, professional regulations which impede the ability of firms to adapt to changing circumstances.[1]

Managing in Difficult Times notes that, as a result of these factors, the average size of architectural firms dropped from almost seven persons in 1977 to four or five persons per firm in 1984. This downsizing, in conjunction with the closing of firms, has resulted in substantial increases in the number of architects claiming unemployment insurance; UIC rates for architects are now three times higher than they were in the early 1980s. (See Exhibit 6 in the Appendix) Average real income per firm declined by 36 per cent over the same period.

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1. While Managing in Difficult Times acknowledges that professional regulations have been reduced, it feels that more can still be done. It suggests, for example, that firms be allowed "to identify other specialties on their letterheads and other marketing materials, including, if necessary, permitting equal prominence to services other than those offered by traditional architectural practices".

OUTLOOK

Managing in Difficult Times does not forecast a bright future for the architectural profession in the absence of anything being done to counteract current trends. It notes that:

> "Slow or no growth in the market,[1] improvement in operational efficiencies through technology, and the continued addition of new architects into the market will of necessity produce greater competition with work spread thinner. Firms will continue to decline in size and there will be no employment growth. The implications are for the architectural services business to return to cottage industry status."

Moreover, the architectural profession will be facing major social changes in the years and decades ahead with which it will have to deal in order to survive. Important societal trends which will affect the future of architecture include: the aging of the population, which will entail new accommodation needs; and increased immigration, which will bring with it the prospect of new approaches to housing, urban design and the work environment.

Another important consideration with regard to the future of the architectural profession is the increasing use of computers. Managing in Difficult Times notes that, although this trend has been undocumented so far in Canada, evidence from the United States indicates that by 1983 approximately 45 per cent of firms surveyed had computers and 55 per cent were planning on acquiring or increasing their computer capabilities within the next 12 months.

However, there are problems associated with developing computer capability in Canada. Thus, it has been suggested that public sector tendering agencies in Canada are not encouraging the use of computers in design[2] as much as their counterparts in the United States. Moreover, "the legal relationships of the various parties in a construction project will continue to inhibit computer

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1. See Exhibit 7 in Appendix.

2. The percentages cited above with respect to computer usage in the United States take into consideration not only computer assisted design, but also word processing, job cost accounting and financial management.

communications even as it becomes more technologically feasible." (Daily Commercial News and Construction Record, October 9, 1985).

Nevertheless, it is also felt that once more architects become involved with computers, they will be able to pressure the computer industry to make the sort of changes required to make computer systems more effective in architectural work. Thus, "... it is evident that architects are at the threshold of a new era in architecture." (Managing in Difficult Times).

Of course, there will be a downside to the arrival of high technology in the architectural profession. Increased use of computers and the potential automation of design may lead to further reductions in the size of the profession. Furthermore, new technology may discount architectural experience somewhat, and give a competitive advantage to those firms which are relatively strong in computing and marketing.

These trends may render obsolete the practice of architecture as a separate identifiable profession; a more multidisciplinary, technologically-oriented design profession may supercede what has already become a much less compartmentalized architectural profession, as evidenced by the branching out of architects into non-traditional services.

Finally, the future of the architectural profession in Ontario may be affected by the planned closure of the University of Toronto's school of architecture. Michael Ross, President of the Ontario Association of Architects, has said that closing the school "will have a serious impact on the profession." (Globe and Mail, January 24, 1986). The school is one of three in the province[1] and the only one offering a graduate degree.

Budget constraints were cited as the primary reason for the administration's decision. Premier Peterson has already ruled out any additional provincial funding to save the school. He considers the issue to be an internal administrative matter for the university, in which the provincial government should not interfere.*

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[1] The other two are at the University of Waterloo and Carleton University.

* After this profile was completed, a task force was commissioned by the president of the University of Toronto to explore options with regard to the future of the school. The task force has submitted its report, and it is expected that a final decision on the fate of the school will be made in November.

INTERNATIONAL PRACTICE

The export of architectural services does not figure prominently in the work of architectural firms. It accounted for 4.9 per cent of total fee income for architectural firms in Ontario in 1982, and only 2.5 per cent nationwide. (See Exhibit 8 in Appendix) It is considered unlikely that any firms have actually grown in size due to success in export activity. Nevertheless, export activity has helped some firms remain viable by offsetting declines in their domestic activity.

The United States is now the dominant market for Canadian architectural export activity, accounting for 36 per cent of total fee income from foreign projcts in 1982, compared with only 9 per cent in 1977. The Middle East, Africa and the Caribbean have become substantially less important. (See Exhibit 9 in Appendix)

It is also important to note that a greater portion of Canada's increased export market activity is being funded by external sources. (See Exhibit 10 in Appendix) This reflects the increased sophistication of Canadian firms in export activity and the growing reputation of our architectural firms.

Nevertheless, further development of architectural export activity will require overcoming a number of challenges. Arthur Erickson has noted that while a reputation for good design is an asset, marketing it to the world can be a daunting undertaking. "To break into the international market requires a major investment.... It took us seven years of promotion before we realized a single project in the Middle East." (The Financial Post, March 31, 1984)

In addition to marketing problems, foreign circumstances can adversely affect export work for Canadian architects. Thus, reduced oil revenues in the Middle East have slowed down projects in that area. Enthusiasm for new projects in Hong Kong has cooled in view of uncertainties about Hong Kong's future after 1997 when British-colony status ends. Other developing nations are making concerted efforts to promote their own architectural professions.

While several Canadian architects have won prestigious international design competitions, most notably Carlos Ott for the new Paris opera house, it has been suggested that "The odds of winning are like a lottery." (R. Menkes, The Financial Post, May 25, 1985).

It should also be noted that some Canadian architects have been successful in obtaining design contracts in the United States because they have 'piggybacked' onto major Canadian developers, who have made significant inroads in the U.S. market. Thus, a member of the Zeidler Roberts architectural partnership has indicated that their success in getting a design contract for a major project in San Francisco was due to the fact they they "were riding on the coattails of the largest developer in the world, Olympia & York. It would have been impossible to penetrate into the U.S. without their success." (I. Grinnell, The Financial Post, May 25, 1985).

This last observation reflects concerns about the marketing abilities of Canadian architectural firms and their competitiveness in the much larger U.S. market. It does not mean that there are any significant U.S. trade barriers against Canadian architects. Indeed, while there are both tariff and non-tariff barriers for U.S. firms wishing to practice in Canada, it is generally acknowledged that protectionist policies in the U.S. do not pose a major obstacle to firms wishing to enter that market. It has even been suggested that it is easier for a Canadian architect to work in the U.S. than to work in another province. Managing in Difficult Times indicated that complete free trade with the United States could be harmful to Canadian firms if large, technologically advanced U.S. firms decided to go after the Canadian market.

Finally, some architects feel that export work is not particularly desirable anyway because of pitfalls involved in working abroad, including different ground rules for negotiating with clients; differences in building codes, climate, materials and the built environment; the necessity to interact with local firms; and, long-distance communications problems.

REGULATORY ENVIRONMENT

The licensing of architects and the practice of architecture in Ontario are governed by the Architects Act. This Act was completely revised in 1984 by the Ministry of the Attorney General, based on the report of the Professional Organizations Committee. The new legislation gives the Ontario Association of Architects (OAA) enhanced ability to regulate the practice of architecture, clearly delineates the areas of building design responsibility for both architects and engineers, and provides greater protection to the public through provision for mandatory professional liability insurance (see below). In February 1985, Michael Ross, the incoming president of the OAA, said that "there has been some misunderstanding about certain provisions of the act and related association regulations", but noted that, nevertheless, "It's been a fairly smooth transition." (Daily Commercial News and Construction Record, February 21, 1985).

Managing in Difficult Times, however, suggested that there is still a need in Canada to change regulations which inhibit interprovincial practice and the development of larger or national firms. The study also felt that, for the sake of continuity and the development of a professional reputation, firms should be allowed to use the names of founding principals after their retirement or death and should be permitted to use names other than the surnames of principals. Furthermore, certain restrictions against joint practices with other disciplines and against offering services outside the traditional architectural fields within an architectural business were also felt to inhibit diversification. Finally, Managing in Difficult Times noted that the marketing of architectural services has been hindered by rules on advertising.

There is no regulation of architects at the federal level. The Royal Architectural Institute of Canada has as its primary purpose the promotion of architectural excellence in Canada.

ASSISTANCE CURRENTLY RECEIVED

Prior to passage of the 1984 Architects Act, architects in Ontario were not allowed to incorporate. They were subject to personal rates of taxation, as were other unincorporated enterprises. They did not receive any preferential tax treatment at the federal level, nor at the provincial level, given Ontario's adherence to federal (personal) tax provisions under the Tax Collection Agreement. Under the 1984 Architects Act, however, architects are allowed to incorporate. Whether an architectural firm - sole proprietorship or partnership - decides to incorporate will depend on a variety of factors, including tax considerations, liability issues (i.e. partnership liability versus corporate limited liability), and corporate planning. From the taxation point of view, there may be some advantage for a small firm to incorporate because of the preferential tax treatment of small businesses. At the federal level, small (non-manufacturing) businesses enjoy a tax rate of 15 per cent on the first $200,000 of taxable income.[1] In Ontario, there is a three-year income tax exemption for new qualifying corporations. The exemption applies to the first $200,000 of eligible active business income in each year.[2]

Financial assistance is available to architects at both the federal and provincial levels. The federal government's Program for Export Market Development (PEMD) provides incentives for Canadian suppliers of goods and services to enter world markets and expand export activities. The financial assistance offered is in the form of a contribution which generally is repayable only if an export contract is successfully negotiated or an increase in export sales is realized. There are seven sections to the program, with varying financial provisions. Some sections, such as Participation in Trade Fairs, provide per diem allowances and fifty per cent of transportation costs. Other sections, such as Sustained Export Market Development, provide (under Phase 1) a maximum contribution of $25,000 or 50 per cent of eligible costs, whichever is less.

Architectural firms have also received assistance from the Canadian International Development Agency (CIDA) and the Export Development Corporation (EDC). While CIDA is a direct funding agency, EDC provides insurance, guarantees, long-term loans and other services necessary for exporters and/or investors to compete in international markets. Between 1977 and 1982 CIDA financing fell in both absolute and relative terms. (See Exhibit 10 in Appendix).

The federal government also has two programs, ENERDEMO-Canada and the Industry Energy Research and Development Program (IERD), which are intended to promote energy conservation. Since the eligibility criteria under these programs are very broad, it is possible that architects interested in designing energy efficient buildings could receive some financial support from these sources.

At the provincial level, the Ontario International Corporation (OIC), although it is not a funding agency, has provided financial support to architectural firms in the form of assistance for travel costs. Its principal function, however, is the co-ordination of Ontario public and private sector export expertise for off-shore projects.

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[1] Taxable income above $200,000 is taxed at a rate of 36 per cent.

[2] Existing small businesses are taxed at a rate of 10 per cent on the first $200,000 of active business income. Taxable income above $200,000 is taxed at a rate of 15½ per cent.

Ontario provides direct financial assistance to architects, along with consulting engineers, management consultants and others, through the Export Success Fund. Loans, up to a maximum of $50,000, are available for new or expanded export activity only; they are not available to maintain existing business. The loans are repayable if the export project is successful.

The programs just noted are largely export oriented. On the domestic front there do not appear to be any programs which provide direct financial assistance to architects, with the possible exception of the energy conservation programs. However, it is worth reiterating that public sector work accounts for some fifty per cent of total architectural fee income in Canada. This is a very important source of public sector financial support to architects.

POLICY OBJECTIVES

The major issue now facing the Ontario Association of Architects and its members is the requirement under the Architects Act that OAA members have professional liability insurance. The OAA is in favour of compulsory insurance for its members, but it feels that implementation of the insurance provisions should not proceed until conditions in the insurance market improve. While it is estimated that 85 to 90 per cent[1] of licensed architects in Ontario already have professional liability insurance, the fear is that they will not be able to renew their insurance, which will have serious implications for them under a system of mandatory liability insurance.[2] As a result of these concerns, the implementation date for the insurance coverage provisions in the Act has been successively extended to Janaury 1, 1985, April 1, 1985, April 1, 1986, and just recently, April 1, 1987.

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1. The Globe and Mail, April 23, 1985, "Groups win delay on insurance plans", p. B15.

2. It should be noted that the incidence of claims against architects has been relatively stable, growing at a rate of only 2 per cent a year. Daily Commercial News and Construction Record, September 30, 1985, "Growth rate of liability claims holding at 2%", p.1.

Over the past five years, the OAA has tried to establish a self-insurance plan in partnership with an insurance carrier. However, with the drying up of the re-insurance market, the nine or ten insurance carriers that had been interested in providing such a plan for architects reversed their position. Nevertheless, the OAA is continuing its efforts in this regard.

An alternative approach may be to set a limit on the time during which architects would be professionally liable for any errors or omissions in their work. This was one of the recommendations made in Managing in Difficult Times. In the United States, 47 of the 50 states have enacted such statutes of limitations.[1]

The Attorney General's Office is looking very closely at what happens in the insurance industry with a view to determining whether the liability provisions as they stand are necessary or whether they should be revised and other ways found to protect the public.[2]

It is interesting to note that some insurers are also concerned about the compulsory liability insurance requirement of the Architects Act because they feel that they "... must not, under any circumstances, be put in the position where we ... decide who can and cannot practise their profession depending on our willingness to provide insurance coverage." (C. Mercier, Daily Commercial News and Construction Record, September 27, 1985).

While the architectural profession in Ontario is confronted with specific problems such as finding liability insurance and the more general problem of declining business, Managing in Difficult Times concludes that "there is no justification for a (government) bail out", noting that "Architects have been among the least flexible in adjusting to the circumstances both as individual firms and as an industry".[1] The study proposes more modest measures, primarily in the form of some government (financial) assistance to architectural associations in the following areas: overcoming a bad image problem,[2] reducing barriers to interprovincial practice and more multidisciplinary practices, and improving marketing techniques. Government could also reduce in-house work and modify the ways in which it retains architectural services,[3] continue support for exports,[4] and provide access to R&D activities.

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[1] Daily Commercial News and Construction Record, September 27, 1985, "Move to mandatory insurance 'should be suspended' ", p.1

[2] It is worth noting that the Professional Organizations Committee found that "there is not a high level of client dissatisfaction with this (architectural and engineering) work." This is attributable not only to regulation of the professionals involved, but also to regulation of the product itself through building codes and land use planning legislation.

It is worth noting, however, that the architectural profession has already taken the initiative in some of these areas. Thus, the Royal Architectural Institute of Canada (RAIC) is undertaking a three to four year study of the role of architecture in Canada, and the RAIC's Research Corporation was recently involved in a cross-country series of seminars on implementation of micro-computers in architectural practices.

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[1] The Professional Organizations Commitee concluded in 1978 that "... no further government restrictions are desirable in the building design process. Indeed, if action is to be taken it should be to enhance the operation of the market forces presently at work. The overlap between the two professions (architecture and engineering) could be explicitly recognized and unnecessary jurisdictional barriers reduced. Attention might also be given to facilitating the upward mobility of qualified paraprofessionals to partial or full professional status".

[2] It is argued that the architectural profession is perceived to be excessively design-conscious and unconcerned with the costs involved. Managing in Difficult Times notes that "The first step is to recognize that these problems are the architect's fault and not due to some inadequacy on the part of the public and clients.

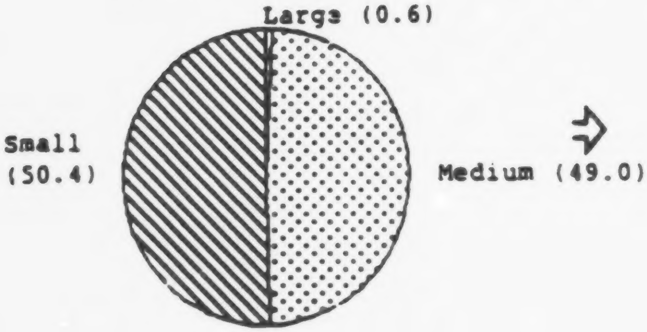
[3] E.g. it is recommended that architects be selected on the basis of ability rather than for price or patronage reasons.

[4] However, the study notes that "... export is an opportunity for only a select few firms ... It is a business for larger firms or firms with specific building expertise honed in the Canadian market. Widespread programs to encourage smaller firms and one-man practices to export would be ill-advised."

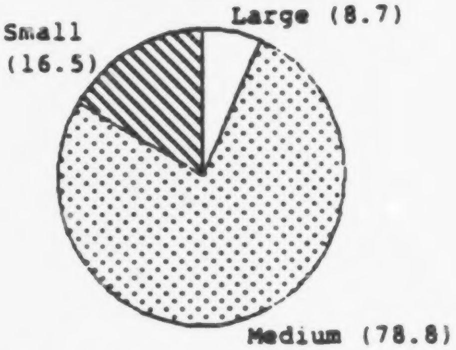
EXHIBIT I

PROFILE OF THE PROFESSION, 1977

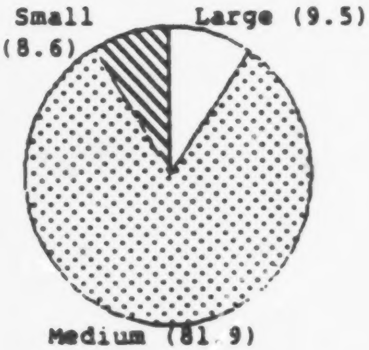
By Number of Firms (%)



By Employment (%)

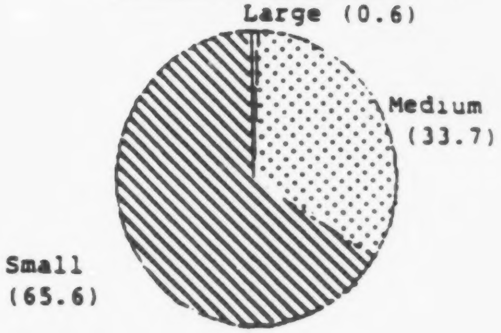


By Fee Income (%)

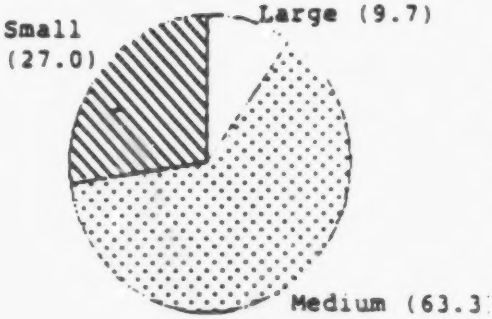


PROFILE OF THE PROFESSION, 1982

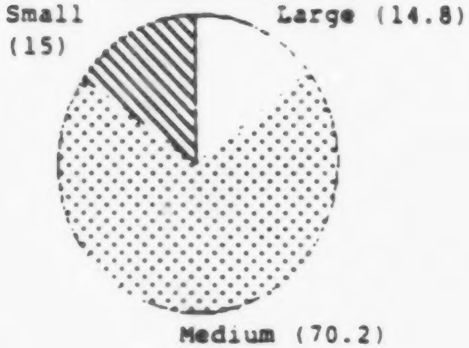
By Number of Firms (%)



By Employment (%)



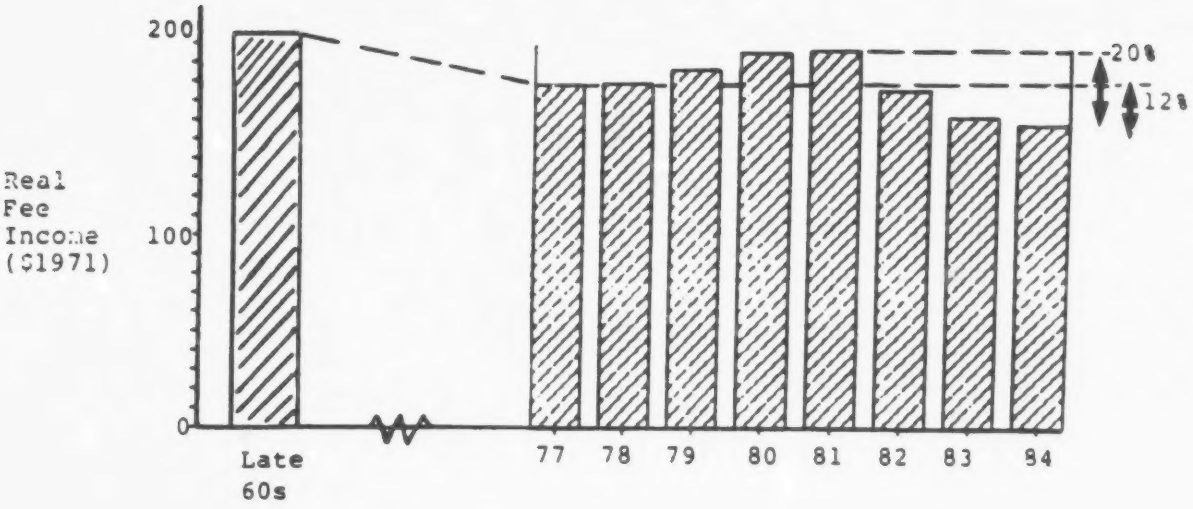
By Fee Income (%)



Source: Statistics Canada Surveys, 1977 and 1982.

EXHIBIT 2

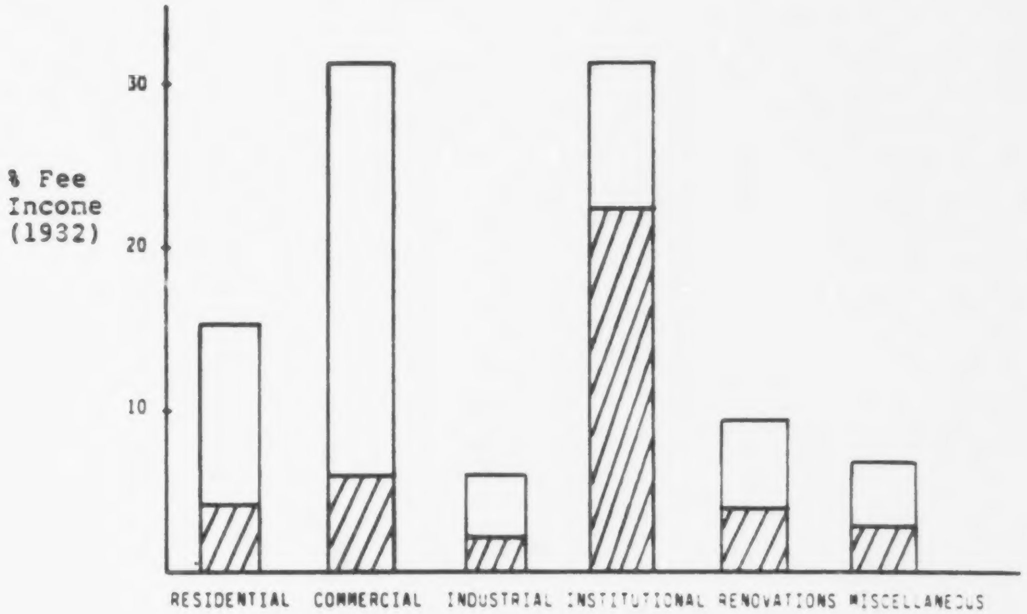
LONG TERM DECLINE IN FEE INCOME



Managing in Difficult Times

EXHIBIT 3

PUBLIC SECTOR IS A MAJOR CLIENT



Source: Statistics Canada Survey, 1982.

Managing in Difficult Times

EXHIBIT 4

Per Cent of Total Fee Income Derived from
Different Building Classifications
(Canadian Projects)

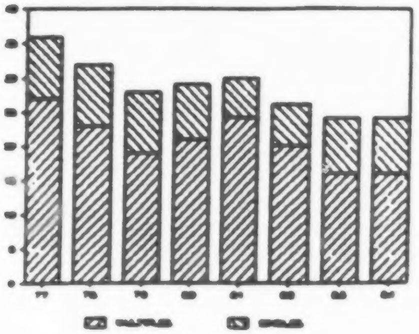
Building Classification	1977 (%)	1982 (%)
Residential	20	15
Commercial	29	31
Industrial	7	6
Institutional	35	31
Renovations	3	9
Miscellaneous	7	7
	101	99

Source: Based on data in Statistics Canada Catalogues 63-534 Occasional (1977) and 63-537 Occasional (1982).

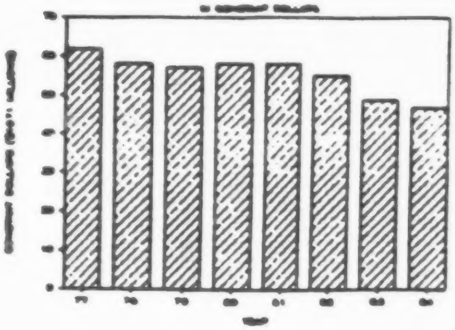
EXHIBIT 5

MIXED PERFORMANCE IN DIFFERENT SECTORS

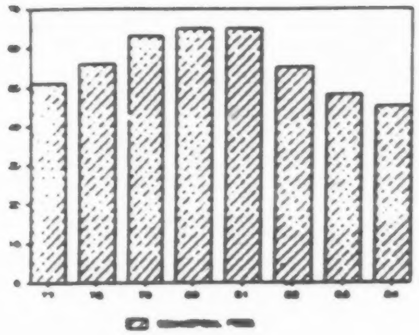
1. RESIDENTIAL FEE INCOME



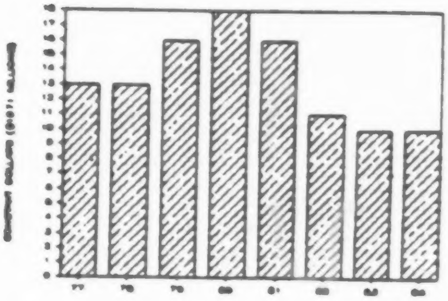
2. INSTITUTIONAL FEE INCOME



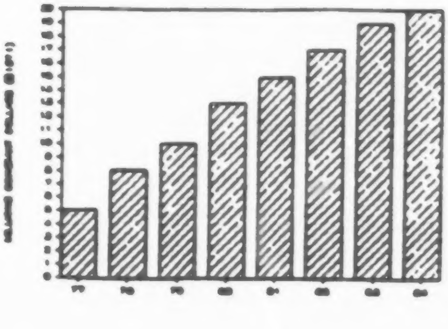
3. COMMERCIAL FEE INCOME



4. INDUSTRIAL FEE INCOME



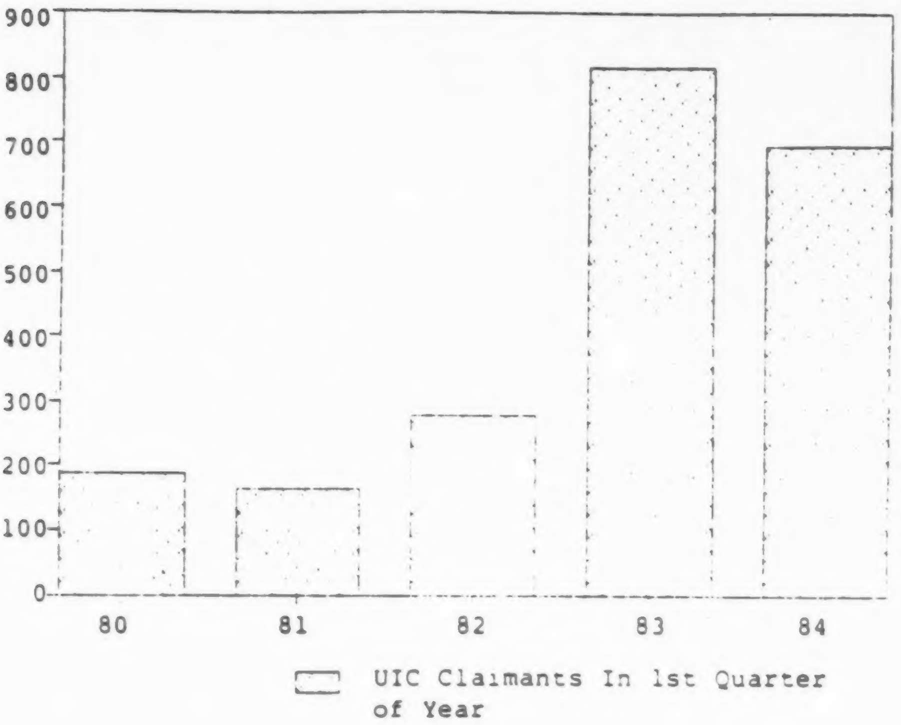
5. RENOVATION FEE INCOME



Managing in Difficult Times

EXHIBIT 6

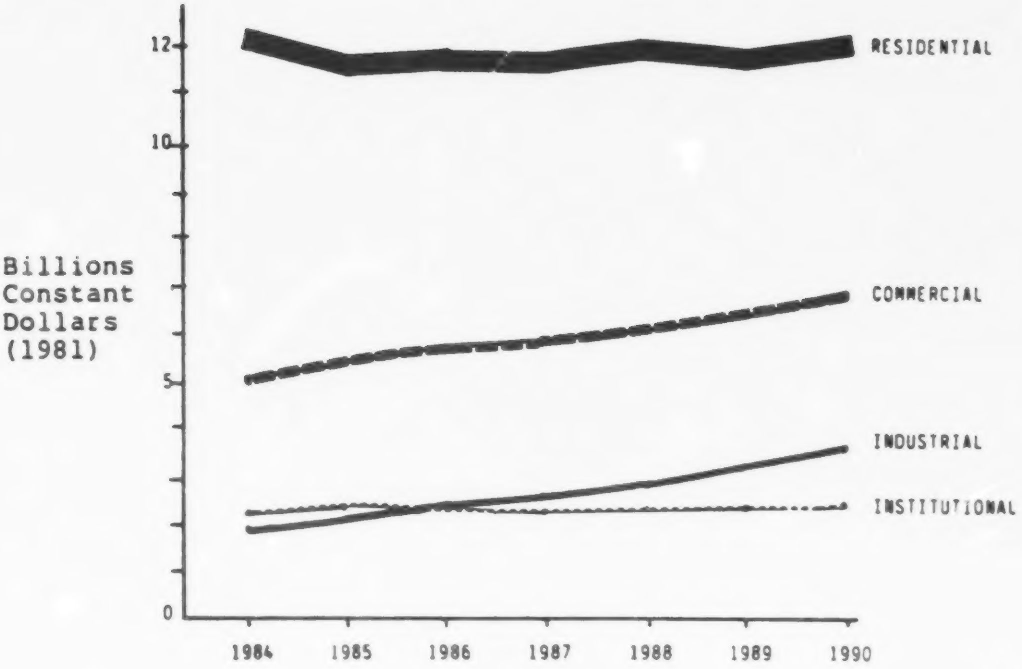
MANY ARCHITECTS OUT OF WORK



Source: Unemployment Insurance Commission Statistics: Active Claimants by Occupational Code: Architects, 1980-1984.

EXHIBIT 7

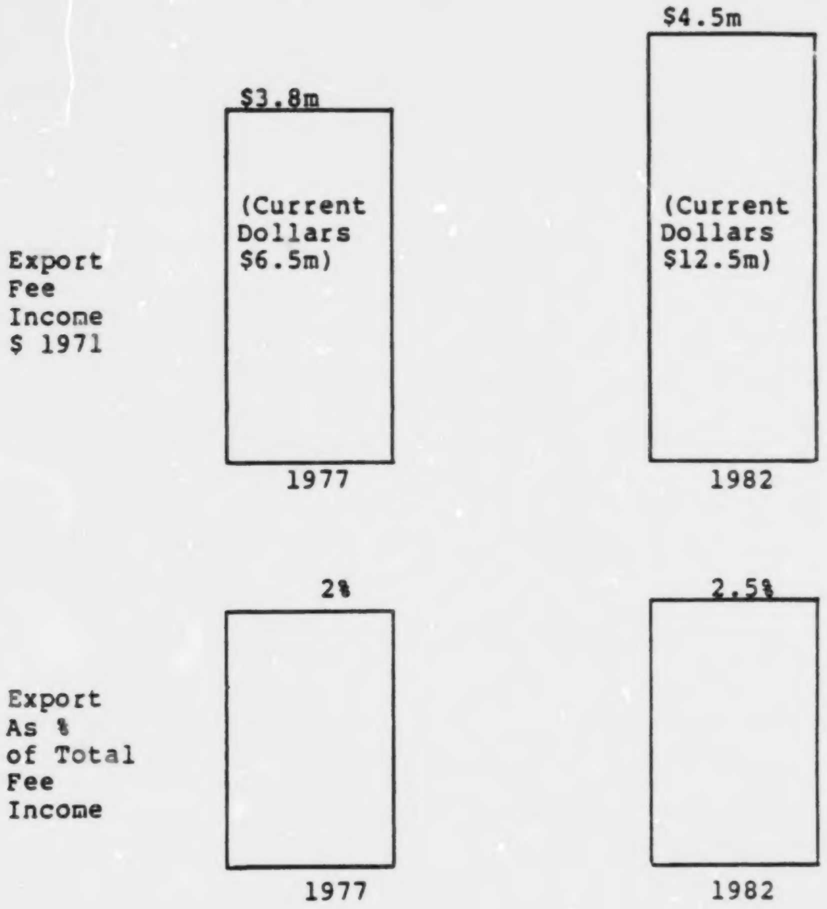
LITTLE GROWTH FORECAST IN CONSTRUCTION INVESTMENT



Source: Canadian Construction Association (1984): Construction Outlook from Winter 1984.

EXHIBIT 8

EXPORT FEE INCOME UP IN REAL TERMS



Source: Statistics Canada Surveys, 1977, 1982.

EXHIBIT 9

Distribution of Foreign Fee Income for Canadian Architectural Firms

Geographical Area	1977 Rank	1977 % of fee income	1982 Rank	1982 % of fee income
United States	4	9	1	36
Latin America	6	7	2	18
Africa	2	26	3	12
Unspecified	-	-	4	10
Far East	5	8	5	10
Europe	7	2	6	7
Middle East	1	28	7	6
Caribbean	3	20	8	2
Australasia	-	-	-	-

Source: Based on data in Statistics Canada Catalogues 63-534 Occasional (1972) and 63-537 Occasional (1982).

EXHIBIT 10

FINANCING SOURCES SHIFTING

	1977		1982	
	$	%	$	%
CIDA	2.7 m	43	1.0m	9
Private Canadian Sources	0.8m	13	2.7m	24
Private Foreign Sources	0.5m	8	2.7m	25
Goverment Foreign Sources	1.9m	30	2.8m	26
Other*	0.4m	6	1.8m	17
	6.3m		11.1m	

Other*: includes Export Development Corporation and other international funding agencies, eg. World Bank, United Nations Development Program.

Source: Statistics Canada Surveys, 1977, 1982.

Managing in Difficult Times

BANKING

INTRODUCTION

Banks are financial intermediaries - that is, they act as intermediaries between ultimate lenders (i.e. savers) and ultimate borrowers (i.e. spenders). Financial intermediation is not exclusively limited to banks, however. Trust companies and credit unions, for example, also operate as financial intermediaries.

Each type of financial institution is limited by legislation to certain functions. For example, under the Bank Act, banks may provide commercial loans, but are restricted from providing fiduciary services, such as estate and trust management. On the other hand, the reverse is true for trust campanies, who are severely limited in providing commercial loans but who may provide fiduciary services. Banks generally differ from other financial institutions in that they are empowered to provide short-term commercial loans, whereas most other financial institutions are significantly limited in this area. Banks share with other financial intermediaries many other functions, such as accepting short- and long-term deposits and providing credit, personal loans and mortgages.

INDUSTRY STRUCTURE AND STATUS

Number of Establishments

As of April 1986, there were 67 chartered banks in Canada, of which 12 were Schedule 'A' or domestic banks and 55 were Schedule 'B' or foreign banks.[1] Of the domestic banks, only three have their official head offices located in Toronto (Canadian Imperial Bank of Commerce, Continental Bank of Canada and the Toronto-Dominion Bank).[2] It should be noted, however, that the six largest banks in Canada all have their executive offices located in downtown Toronto.

Of the 56 foreign banks chartered under the Bank Act, 44 or 79 per cent have their head offices located in Toronto. The remaining 12 are split between Montreal, with eight or 15 per cent, and Vancouver, with four or 7 per cent.[3] Moreover, 51 or 93 per cent of the foreign banks have a branch or head office located in Toronto. In addition, 37 (84 per cent) of the 44 Foreign Representative Offices in Canada are located in Toronto.[4] Although Foreign

Representative Offices are restricted from conducting banking transactions in Canada, they do provide an important service by acting as a liaison between their clients and their foreign bank. Given the distribution of banking establishments, it is apparent that Toronto is Canada's financial centre.

Industry Employment

In 1985, Schedule 'A' banks employed 165,418 people in Canada, of which 74,957 or 45 per cent were employed in Ontario.[5] About 87 per cent of Ontario employment is full-time. The Schedule 'B' banks employed 3,671 persons in 1985, of which 2,590 or 71 per cent were employed in Ontario.[6] Accordingly, Schedule 'B' banks disproportionately employ people in Ontario. Overall, Schedule 'B' banks are responsible for about 3 per cent of Ontario's total employment in the banking industry.

Approximately three-quarters of all Schedule 'A' bank employees in Canada are women, of whom about half are classified as administrative support staff.[7] Only 28, or 1.4 per cent, of senior management are women. The average salary for senior management in 1984 was over $57,000, whereas the average salary for administrative support staff was under $19,000.[8]

Composition of Industry by Firm Size

The banking industry in Canada can be characterized as consisting of a number of smaller banks and a few large banks. Schedule 'A' banks are generally large, even by international standards. Table 1 (page 117) ranks Canada's Schedule 'A' banks by size of assets. The six largest banks represent 90 per cent of total bank assets in Canada.

Table 2 (page 118) ranks Canada's Schedule 'B' banks by size of assets. Relative to the domestic banks, Canada's foreign banks are small. The largest foreign bank is Citibank which represents 17 per cent of all foreign bank assets. Yet, Citibank represents only one per cent of total bank assets and is approximately five per cent the size of Canada's largest domestic bank.

The strong correlation in size between small banks and foreign banks is primarily due to the relatively recent appearance of foreign banks in Canada. The 1980 Bank Act allowed foreign banks to establish in Canada for the first time.

Industry Size and Output

In general terms, the financial services sector in Canada consists of four basic industries or "pillars": banks, trust companies, insurance companies and securities dealers. Aside from these four main industries, other financial industries exist, such as credit unions and consumer finance companies, which provide important financial services as well.

Of all financial institutions in Canada, banks are by far the largest. As depicted in Table 3 (page 119), banks have historically dominated the financial services sector in Canada. In 1970, banks accounted for about 63 per cent of total assets. With the emergence of new financial service industries and competition from other financial institutions, banks have dropped slightly in importance. In 1983, banks accounted for about 59 per cent of total assets, a drop of 4 percentage points.

Gross Domestic Product data does not separate bank output from other deposit-taking establishments, such as trust companies, nor is it available at the provincial level. Nevertheless, based on Statistics Canada GDP figures, banks and other deposit-accepting establishments accounted for about 2 per cent of Canada's Gross Domestic Product in 1984.[9]

The growth in bank output has been impressive. Gross Domestic Product for banks and other deposit-taking establishments increased in real terms from 1971 to 1979 at an average annual compound growth rate of 8.0 per cent. The growth in output slowed abruptly in 1980, recovered in 1981 and then declined throughout 1982 and 1983. It is now showing signs of renewed growth.[10]

Industry Births and Deaths

Unlike most other industries, banks usually do not exhibit high turnover rates. For financial markets to function properly, the public must have confidence in their stability. Therefore, regulators have attempted to ensure that banks, as well as other deposit-accepting establishments, remain solvent. At the same time, however, a number of industrialized countries have encouraged new entrants into the industry in order to promote greater competition. Hence the delicate balance between efficiency and solvency.

A significant number of new banks were created between late 1981, when the 1980 revisions to the Bank Act came into effect, and 1984. Fifty-nine Schedule 'B' banks were chartered under the Bank Act over this four year period. About half of these "new" banks were in fact existing foreign operations which were converted into Schedule 'B' banks.

Since 1984, however, there has been a number of mergers and acquisitions, reducing the number of Schedule 'B' banks to fifty-five. With economic recession and intense competition, there was a move to consolidate foreign operations in Canada. This is expected to continue.

Canada had an impressive bank solvency record until the failure of two regional banks in 1985. Prior to these failures, there had not been a bank failure in Canada since the Home Bank failed in the early 1920s. On March 25, 1985, the Governor of the Bank of Canada announced that a support package was arranged for the Edmonton-based Canadian Commercial Bank (CCB).[11] The cost of the support package was $255 million and was financed by the Governments of Canada and Alberta, the Canada Deposit Insurance Corporation and the six largest banks.

One of the consequences of the disclosure of CCB's difficulties was a significant withdrawal of wholesale deposits from the Calgary-based Northland bank, as it exhibited many of the same characteristics that were plaguing CCB.[12] On September 1, 1985, the Minister of Finance announced that CCB and Northland were no longer viable and curators were appointed to both banks. These two failed banks represented less than one per cent of the total assets of the Canadian banking system.[13]

The uncertainty caused by the failure of two more specialized regional banks led depositors, especially institutional depositors, to withdraw their funds from other regional banks, such as the Bank of British Columbia, Vancouver's Western Pacific Bank and the Bank of Alberta. In order to slow the run on their deposits, the Bank of Canada provided short-term cash reserves to keep these financial institutions solvent until confidence was re-established in our financial institutions. This eventually occured. However, the run on deposits forced a bank acquisition; the National Bank of Canada acquired Mercantile Bank of Canada in 1985.

Profile of Industry Clientele

Some indication of bank clientele is given by disaggregation of bank liabilities and assets by type of financial instrument. Table 4 (page 120) provides a breakdown of bank liabilities. About 47 per cent of bank liabilities are denominated in foreign currencies, such as foreign currency deposits and securities. About 42 per cent of total liabilities are in the form of Canadian dollar deposits, of which two-thirds are personal savings deposits.

Table 5 (page 121) provides a disaggregation of bank assets. About 44 per cent of bank assets are in the form of loans. Of these, two-thirds are classified as General Loans, including personal and business loans. About 23 per cent are in the form of mortgages, most of them residential mortgages. Banks have become major players in the mortgage market. In the mid-1970s, banks accounted for approximately 22 per cent of the market, while trust companies accounted for 37 per cent. By 1983, the banks' share of the mortgage market increased to 33 per cent, while the trust companies' share fell to 31 per cent.[14]

There have been complaints that small businesses have difficulty obtaining short- and long-term debt from Canada's chartered banks. It is worth noting that the Schedule 'A' or domestic banks have a greater proportion of their business loan portfolio in small business than the Schedule 'B' or foreign banks. As of March 31, 1983, the domestic banks had $14,641 million in business loans under $200,000, representing 16.3 per cent of their total business loans. The comparable figures for the foreign banks were $91.3 million and 1.1 per cent of total business loans.[15] It has been argued, however, that foreign bank competition in the medium-sized loan market has forced the domestic banks to enter the small loan market to a greater degree than would be the case without this competitive stimulus. The Canadian Federation of Small Business has supported this argument and has been in favour of encouraging greater competition in Canada's financial services sector for some time.

Industry Concentration

The Canadian banking industry is dominated by the large domestic banks. As depicted in Table 6 (page 122), the six largest banks measured in terms of total assets represented 90 per cent of the industry assets in 1985. The ten largest banks, all domestic, represented 94 per cent of the industry's total assets. At the other end of the spectrum are the 55 foreign banks, representing in aggregate about 6 per cent of total assets.

Looking at industry concentration measured in terms of net income, the same pattern appears. In fact, it seems even more concentrated, with the top six banks accounting for 94 per cent of total net income for 1985. The share of net income held by foreign banks is 5 per cent, which is slightly lower than their share of assets.

The high level of concentration in the banking industry has been cause for concern for some time. In 1982, the federal government launched an investigation into bank profits, but found that bank profits were not unusually high.[16] The federal government has also taken steps to increase competition. First, foreign banks were allowed to establish limited banking operations in 1981. Later the percentage share of foreign bank assets was increased from 8 per cent to 16 per cent of domestic assets. In April 1985, the federal position paper on financial institutions proposed significant reforms that would allow trust companies and other financial institutions to compete directly with the banks (see page 22 for further details). In addition, the chartered banks were made subject to the federal government's new Competition Act.

Foreign Ownership

Prior to the 1980 Bank Act, foreign owned banks were limited to operating in Canada through either non-bank subsidiaries or foreign representative offices.[17] Because representative offices could not conduct banking business in Canada, they could not compete effectively with the domestic banks. The non-bank subsidiaries, however, were capable of side-stepping all banking regulations and supervision by indirectly financing their activities through money market instruments guaranteed by their parent firm. Consequently, the foreign non-bank subsidiaries posed a competitive threat to the domestic banks.

The 1980 Bank Act brought foreign bank operations within the ambit of the Bank Act. Non-banks could no longer use financial guarantees from their parents and were required to incorporate as Schedule 'B' banks under the Act. The 1980 Bank Act included the following special regulations with respect to the operations of foreign banks in Canada:[18]

- First, the total domestic assets (Canadian dollar and foreign currency assets of residents booked in Canada) held by all foreign bank subsidiaries were not to exceed 8 per cent of the total domestic assets of the entire Canadian banking system. (This has subsequently been increased.)

. Second, for any individual foreign bank, the ratio of domestic assets to capital was limited to 20:1.

. Third, a foreign bank subsidiaries were permitted to have only one branch in Canada. The opening of additional branches requires specific approval by the Minister of Finance. (There are 56 foreign bank subsidiaries with approximately 156 head offices and branches.)

. Fourth, foreign bank subsidiaries may provide a single loan in exceptional cases of up to 100 per cent of their capital. Schedule 'A' banks, however, are prohibited from providing a single loan valued at more than 50 per cent of the bank's capital.

. Fifth, at least 50 per cent of Canadian currency assets held by foreign bank subsidiaries must be funded by Canadian currency liabilities.

Both the Inspector General of Banks and the House of Commons' Standing Committee on Finance, Trade and Economic Affairs[19] concluded that foreign bank subsidiaries "have made a significant contribution to competitive banking" in Canada. In its report to the Minister of Finance, the Standing Committee recommended that the eight per cent ceiling on assets be abolished and that unlimited growth be allowed on a case-by-case basis. On April 11, 1984, the Minister of Finance raised the ceiling on foreign assets to 16 per cent.[20]

As depicted in Table 7 (page 123), foreign bank subsidiaries increased their share of total assets from 6.4 per cent in October 1982, to 7.7 per cent in April 1984, to 8.9 per cent in October 1985. This accounts for a little over half the maximum amount of assets potentially available to them. According to a recent assessment, foreign banks in Canada are expected to double in size over the next five years by adding a further $1 billion to their existing $ 1 billion in capital and by adding 91 new branches to the existing 152-branch network.[21]

There is less foreign bank penetration in Canada than in other industralized nations. In 1983, the share of assets held by foreign banks as a percentage of assets held by all banks was about 15 per cent for France, 14 per cent for the United States and 9.8 per cent for Germany. The U.K. had an extraordinarily high share of 58 per cent, due to large pools of foreign currency assets held in that country.[22] Canada's share of assets held by foreign banks at that time was approximately 6 per cent.

KEY ECONOMIC FACTORS

The banking industry in Canada, as well as the financial services sector in general, is experiencing fundamental changes, both in the way it views itself and in the way it conducts business. There are at least three underlying factors propelling change in this industry: technological change, internationalization of financial markets and the deregulation of the financial services sector, both within Canada and abroad.

Technological Change[23]

Computer technology was first introduced in the Canadian banking industry in the 1950's. In the 1960's, the technology tended to focus on the processing of cheques. By the late 1960's, the banks had established on-line computer systems. The first automated banking machines appeared in the early 1970's. Towards the late 1970's, multi-branch banking and daily interest savings accounts were established.

The rate of technological change and adaptation has been accelerating, and is likely to continue. As of April 30, 1983, Ontario had 579 automatic teller machines (see Table 8, page 124). By January 31, 1985, 1,086 ATMs were operating in Ontario. This represents an increase of almost 90 per cent over two years. The growth for all of Canada over the same period of time was slightly higher at 95 per cent.

The widespread use of ATMs has a number of implications. ATMs are capable of handling four times the number of transactions that tellers can handle. The costs of ATMs are about 25 per cent to a third lower than the costs of tellers.[24] ATMs are capable of providing banking services almost anywhere at any time. Accordingly, the widespread use of ATMs has had, and will continue to have, fundamental effects on banking costs and productivity. Moreover, the high acceptance rate shown by consumers means that the quality of service provided may have actually improved.

Other technological innovations that have started to revolutionize the financial services sector are:[25]

1. Cheque Truncation: It is no longer necessary for cheques to be stored at the bank where the chequing account is registered. Instead, the

cheques can now be stored at the branch where it is deposited and the information is then transmitted to the appropriate branch. What appears to be a simple procedure has in fact saved considerable time in the physical handling of cheques.

2. Debit Cards: Debit cards operate in a similar manner as credit cards except that the customer's account is debited (i.e. funds are withdrawn). Debit cards would result in cost savings to the bank by lowering administrative costs and by reducing the time interest-free loans are provided to the card holder. Debit cards have been introduced as pilot projects by some of the credit unions in Western Canada.

3. Smart Cards: More advanced than debit cards are "Smart Cards", plastic cards embedded with microprocessors. This technology allows funds to be electronically transferred at the point of sale from the consumer's account to the producer's account. The significant implication of Smart Cards is that it removes the intermediary function of banks, as consumer and producer interact directly. It also reduces the need for local branch offices. Experiments with smart cards are being conducted in France and the U.S.

4. Home Banking: With the increasing sophistication of consumer electronic equipment, it is now feasible for consumers to bank at home. Although the technology exists for home banking, there appears to be no significant market demand for this service. Pilot projects are currently underway across North America. If the ATM experience holds true for home-banking, sooner or later market demand will increase, forcing all financial institutions to provide similar services. Once this occurs, the need for branch offices will decline over time as banking services become decentralized. While the need for branches will not disappear, their number and distribution will likely change.

Although the development of technology is advancing at a significant rate, the adoption of this technology will be slow at the retail level as consumers gradually become accustomed to new methods of conducting business. The Canadian Bankers' Association made this point in its submission to the Federal Task Force on Micro-electronics and Employment in 1982.[26]

> The fact is that Canadian consumers show a strong preference for the continued use of the cheque as their primary payments instrument. Not only will this moderate the pace at which automated systems are introduced, it also means that banks will have to continue running paper-based and electronic systems in parallel since they are committed to offering consumers the freedom to adopt the payments mechanism of their choice. This, in turn, will have the effect of limiting the labour savings available through technology.

Even though there is some consumer reluctance to use new technology, the banking industry will continue to invest heavily in such technology for the following reasons:[27]

1. The increased volume of transactions has forced many financial institutions to automate. In 1980, for example, the volume of cheques issued in Canada, excluding the federal government, exceeded 1.2 billion. Without automation, the banking industry could not have handled such a volume of transactions at the same costs.

2. Consumer preferences, for example for daily interest savings accounts and multi-branch banking, are motivating financial institutions to automate.

3. Greater competition among financial institutions, and the lowering of spreads between interest received from loans and interest paid to depositors, has resulted in moves to lower non-interest costs through the adoption of new technology.

4. The management of and surveillance of operations are more effective with the new technologies.

5. The requirement for accurate, up-to-the-minute information can only be met by innovative technological upgrading.

6. Increased technological capabilities provide new services around the world, making our banking industry more competitive.

The impact of new technology on employment within the banking industry in Ontario is substantial. Through the 1960's and 1970's, the banking industry in Canada grew at a faster rate than the economy as a whole. Even with the adoption of new technology throughout the 1970's, employment still grew. However, the effect of banking automation on employment has been more pronounced in recent years. From 1980 to 1985, employment in Ontario's chartered banks grew only four per cent. Employment in Canada as a whole actually declined by four per cent over the same period. The Ontario Task Force on Employment and New Technology concluded that employment in the banking industry will not grow significantly over the next ten years.[28]

Technological change will have a significant impact on occupations within the banking industry. Clerical positions will continue to be lost through automation, while the number of senior managerial positions will probably grow in response to greater competition at home and abroad. The substitution of technology for clerical jobs will greatly reduce the number of lower paying jobs in the industry.[29]

Internationalization of Financial Services

The international dimensions of banking are more significant today than ever before. There are a number of reasons why this is the case. First, Canada is exporting and importing a greater share of its output. Second, companies requiring capital are considering international sources in their desire to obtain the best deal possible. In addition, investors, such as those responsible for pension funds, look to international markets for the best rate of return and for diversification of their portfolios. Third, Canadian banks have expanded their operations overseas, both to serve Canada's multi-national corporations abroad and to tap new and growing markets.

The importance of international banking is evident in the growth of Canada's bank assets world-wide. Table 9 (page 125) provides an historical overview of the relative growth of Canada banking assets by region. In 1974, the domestic assets of Canada's chartered banks constituted 71 per cent of total bank assets. The balance was foreign assets registered outside Canada. By 1983, domestic assets had dropped to 58 per cent, meaning that almost half of Canada's banking assets were based outside of Canada.

Another example of the growth in international banking is the level of participation within the Eurocurrency market. In 1972, about 133 major banks participated in the Euroloan market. By 1980, the number had risen to 386. Of these banks, no more than 50 to 60 were major participants in the Eurocredit market and these participants had limited range of nationalities.[30]

A major by-product of the internationalization of financial services has been the development of International Banking Centres (IBCs) or International Financial Centres (IFCs). London is the world's most important IFC for international debt financing. New York is a close second. Tokyo is third and gaining. In addition to these major centres, there are numerous specialized centres located throughout the world, such as in the Bahamas, Singapore, Hong Kong, Bahrain, the Caymen Islands and Panama. The future of these centres, however, is uncertain as the higher- and middle-order centres compete for new business.[31]

Financial Deregulation and Inter-Pillar Competition

Another key economic factor affecting Canada's banking industry is the process of deregulation that is occurring within Canada and abroad. This process has at least two origins. First, as financial institutions broaden their range of services to either retain or expand their markets, they find that their enabling legislation constrains these activities. As a result, many financial institutions have found innovative ways of side-stepping legislation. One example was the move taken by the banks to avoid reserve requirements when providing mortgages. Under the Bank Act, the chartered banks are required to hold reserves against the term deposits used to finance their mortgage portfolios. As trust companies were not required to provide similar reserves, the banks were at a competitive disadvantage. To avoid the reserve requirements, banks established mortgage subsidiaries under the Loan Companies Act. To deal with this issue, the 1980 Bank Act revision recognized these subsidies by allowing them to be wholly-owned by the banks.[32] In this case, regulations were altered to fit changing financial markets.

The second impetus to deregulation derives from the desire to increase the level of competition among Canada's financial institutions so that they will strive to improve their services to their customers and to lower costs. Quebec legislators moved relatively quickly to deregulate the financial services sector, in part in order to compete more effectively with other jurisdictions.[33] In December 1982, the Quebec government introduced legislation that allowed Quebec insurance companies to police themselves. In June 1983, the Quebec Securities Commission allowed securities dealers to be owned by anyone, including financial institutions. The Commission also instructed the Montreal Exchange to repeal its provisions that prohibited a brokerage firm from carrying out the functions of a bank, trust company or insurance company. In June 1984, Quebec moved considerably further by allowing provincially-based insurance companies to engage in virtually any type of business.

A key example of integration in financial services is the combination of banking and underwriting. In Europe, a unitary financial system is in place under which banks can underwrite corporate and government securities. In the U.S., financial institutions are finding new ways of avoiding the Glass-Steagall Act which strictly prohibits banks from underwriting and distributing corporate securities. Already, the banks offer discount brokerage services as a result of loopholes in the legislation. The argument advanced by some American banks for allowing both banking and underwriting services in the U.S. is that it allows the American banks to compete more effectively in the European market where this is currently permitted. Extending this to the United States would provide U.S. banks with a larger domestic base from which to compete abroad.

It should be noted that issues of deregulation or reregulation in the financial services sector have to be considered in the context broader public policy objectives including consumer protection, privacy, solvency, efficiency and sovereignty.

INDUSTRY OUTLOOK[34]

Following a decade or more of rapid growth, the expected growth of Ontario bank assets in real terms over the next ten years ranges from a low of 1.5 per cent to a high 5.0 per cent. However, these forecasts are based on a number of assumptions relating to the growth of investment and personal consumption in the economy, competition with other financial institutions, the growth of the banks' international operations, and changes to the Bank Act. During the 1970's, all four factors favoured strong growth in the banking industry. However, these conditions are not expected to be so favourable in the late 1980's and early 1990's.

Capital investment by the banking industry in Ontario is expected to be approximately $93 million from 1985 to 1990 and $99.5 million from 1990 to 1995.[35] Almost 90 per cent of this investment is expected to go towards machinery and equipment, of which about 85 per cent is expected to go to new investments in machinery and equipment related to new technology.

As investments in new technology increase and as the new technology becomes more integrated and efficient, productivity within the banking industry is expected to rise. As a result, greater employment displacement and dislocation will likely occur. Major changes will occur among occupations, with increasing use of part-time employees and a reduction in the proportion of clerical workers from 69 per cent to 60 per cent by 1995. Managerial, administrative and related occupations are expected to grow from 24 per cent to 30 per cent over the same period.[36]

TRADE

Interprovincial Trade

As noted elsewhere, most head and executive offices of Canada's chartered banks are located in Ontario. But since retail banking has traditionally required a local presence, the distribution of banking activity generally reflects the distribution of population and economic activity.

Table 10 (page 126) provides a regional breakdown of full-time employment for Schedule 'A' banks from 1982 to 1985. In 1982, about 43 per cent of employment was located in Ontario, compared with 21 per cent in Quebec and 13 per cent in British Columbia. By 1985, Ontario's share had grown to 45 per cent, whereas Quebec's and B.C.'s share had dropped to 20 per cent and 12 per cent, respectively. Part of Ontario's growth in employment can be attributed to the growth of international banking activity that is conducted through the head or executive offices located in Toronto. As technology continues to replace clerical functions with managerial functions, Ontario's share could increase over the long-term.

Table 11 (page 127) provides a regional distribution of Schedule 'A' and 'B' branch offices. The distribution of branches more closely parallels the regional distribution of population and economic activity. In 1985, Ontario accounted for 39 per cent of all Schedule 'A' branches in Canada, followed by Quebec with 18 per cent and B.C. with 12 per cent.

While the same pattern holds true for Schedule 'B' banks, even with their international orientation, (about 42 per cent of all Schedule 'B' branches are located in Ontario, compared with 19 per cent in Quebec, 19 per cent in British Columbia and 17 per cent in Alberta), the distribution of Schedule 'B' banks more closely reflects the location of major trading centres and economic activity. For example, British Columbia's share of Schedule 'B' banks is considerably higher than Schedule 'A' banks partly because B.C. is the gateway to the Pacific Rim. Alberta registered a higher share of Schedule 'B' banks, a number of foreign banks specialize in the oil and gas industry. In fact, mining, oil, gas and other related minerals accounted for 11 per cent of total foreign bank assets, representing the single largest industry component in their portfolios.[37]

Table 12 (page 128) provides a regional distribution of bank assets and liabilities for 1985. Ontario accounts for the largest share of banking activity, with 41 per cent of total domestic assets and 48 per cent of total domestic liabilities. Quebec follows with 16 per cent and 17 per cent, respectively. Alberta accounts for 17 per cent and 10 per cent, respectively.

It should be noted, however, that this regional distribution excludes head office and international activities which are instead included separately as one item. Because the majority of major banks have their head and executive offices located in Ontario, it would be appropriate to speculate that most of this activity occurs in Ontario.

International Trade

Canada's chartered banks have become increasingly involved in the international markets. From 1971 to 1983, domestic assets as a share of total world assets decreased steadily, from 73 per cent to 58 per cent of total assets (Table 9, page 125).

Canada's largest chartered banks are recognized as major participants in international financial markets. Of the world's 500 largest banking institutions, Canada's seven largest institutions account for 3.7 per cent of total assets, 3.1 per cent of shareholder equity and 5.1 per cent net income (Table 13, page 129). Of these seven, six were banks and one, for the first time, a trust company (National Victoria and Grey Trust Company). Given Canada's top-heavy industry structure, Canada's positioning within the world's top 100 banks is much better than the top 500 (Table 14, page 130).

In terms of profitability, an international credit agency has estimated that Canada's six largest banks were among the 100 most profitable banks in the world in 1983:[38]

	Top 100 Rank
. Toronto Dominion	21
. Bank of Nova Scotia	30
. Royal Bank of Canada	41
. Banque Nationale du Canada	52
. Canadian Imperial Bank of Commerce	59
. Bank of Montreal	62

Over the 1980-83 period, Canada's Banks were among the most profitable, as measured in terms of return on equity, with an average ratio of 14.5, compared to Italy with 25.7; the U.K. with 13.9; Spain with 13.5; the with U.S. 13.2; and Japan with 8.4.[39]

Canada's chartered banks have also penetrated foreign markets to a significant degree. For example, as of June 30, 1982, Canadian banks' share of total claims of all foreign banks in selected countries were:[40]

. United States	9.5%
. France	4.6%
. United Kingdom	2.6%
. Switzerland	1.8%
. Germany	1.6%
. Japan	unavailable

Canada's greatest share of foreign activity in any one country is the United States. Of total foreign claims in the U.S., Canada's banks had 9.5 per cent. Since then, the Bank of Montreal has purchased the Harris Bank Corporation of Chicago. As a result, for 1985, the Bank of Montreal alone has increased its U.S. business loans by 147 per cent to $4.4 billion. The Bank of Montreal now ranks fifth of all foreign banks in the U.S. in commercial and industrial loans, jumping 13 places in the process.[41] Canada's expansions in the U.S. and other foreign markets will undoubtedly continue.

Foreign Banking in Canada[42]

Any person or persons may apply to the Minister of Finance to be incorporated as a bank under the Bank Act. The Minister has sole discretion and many issue letters of patent in the form set out in Schedule 'D' under the Bank Act. On the recommendation of the Minister, the Governor-in-Council may grant the foreign bank subsidiary permission to commence and carry on the business of banking. The Inspector General will only support an application for letters patent where:

- it has been demonstrated that the foreign bank is of good reputation and has significant stature;
- the foreign bank has provided a "letter of comfort"; and
- the foreign bank comes from a "home country" where banks are adequately supervised.

Under the Bank Act, no more than 10 per cent of a bank's total number of shares may be owned by a single person. For foreign banks, however, this rule does not apply. Foreign banks may be wholly-owned by the foreign parent. As noted earlier, foreign banks have certain restrictions on their ability to compete with the domestic banks. For example, foreign banks are not active in retail banking, due to the requirement for Ministerial approval in establishing a branch.

Barriers to Trade

Because banking is federally regulated, there are essentailly no barriers to trade within Canada. In the February 1986 Federal Budget, the Minister of Finance announced that "The government is prepared to facilitate the establishment of international banking centres in Montreal and Vancouver."[43] The Minister of Finance re-affirmed this commitment in a press release dated April 1, 1986, when he released a confidential report commissioned by his department on international banking centres. Should the federal government restrict IBCs to Montreal and Vancouver, it would be creating an interprovincial barrier to the provision of international banking services in Canada.

Aside from restricting foreign banks to 16 per cent of Canadian domestic assets, the Bank Act places additional restrictions on foreign banks as described above, on page seven.

At the international level, a variety of barriers limit the operations of foreign banks. Following is a cross-section of some of these barriers.[44]

Entry: Most developing and underdeveloped countries restrict or prohibit foreign banks from establishing banking operations. Examples include: Australia, Brazil, India, Mexico, Philippines, Thailand and Venezuela.

Size of Operations: To control the scope of foreign branch operations, many countries restrict the number of foreign bank branches. Examples include: Brazil, Canada, India, Japan, Korea, Norway, Philippines, Spain, Taiwan and Thailand.

Access to Domestic Assets: Countries that allow foreign banks may restrict their operations through other means, such as limiting their access to domestic capital. Examples include: Korea, Spain, Taiwan and Venezuela.

Size of Assets: Other countries restrict the size of foreign banks by placing ceilings on their capital or assets. Examples include: Brazil, Canada, India, Korea, Taiwan, Thailand and Venezuela.

Reciprocity: A number of countries restrict the operations of foreign banks to the same treatment their banks face in the foreign banks' country. This assures that the domestic banks have as good an opportunity to develop abroad as foreign banks. Examples include: Canada, Norway, Switzerland and the Philippines.

Efforts to lower international barriers in the banking industry have had three general approaches: The first is called "mirror reciprocity," which would require the host country to allow a foreign country's bank to operate with the same powers as the host country's bank does in the foreign country. The Swiss, for example, have argued for this approach. However, because foreign banks in Switzerland have broader powers than domestic banks in Canada, adopting this approach would force Canada to duplicate the Swiss legislation or allow Swiss banks in Canada to operate with broader powers than Canada's domestic banks.

Under the mirror reciprocity approach, both countries would be forced to adopt the more liberal regulations.

A second approach, advocated by the United States, involves the principle of "national treatment." Under this approach, American banks in Canada would have the same privileges as Canada's domestic banks. The advantage of this approach is that it would allow the host country to retain the right to determine the role of banks in the economy. An important factor to consider is that under a national treatment approach the country with a significant competitive advantage could dominate the other.

The third approach to trade liberalization is "treatment as favourable", which is what Canada has adopted in the Bank Act. Thus, if a country allows Canadian banks access to their domestic market, then that country's banks would be allowed to establish a foreign subsidiary in Canada. This approach is far less onerous than mirror reciprocity and only requires countries to provide similar treatment to each other.

GOVERNMENT ASSISTANCE

The Canada Deposit Insurance Corporation (CDIC) was estabished in 1967 by the Canada Deposit Insurance Corporation Act. The CDIC insures depositors in banks and trust and loan companies against the loss of all or part of their deposits to a maximum of $60,000. The CDIC may also acquire assets from, or make guaranteed loans to, or deposits with, its member institutions for the purpose of averting or reducing the risk of financial loss to the Corporation.[45] The Corporation is funded by member institutions by premiums equal to 1/30th of one per cent of insured deposits.[46] In addition, the Minister of Finance is authorized to make loans to the CDIC out of the consolidated Revenue Fund up to an aggregate of $1.5 billion.

As a result of a number of trust company failures and, more recently, the two regional bank failures, claims on the CDIC have risen substantially. In 1982, CDIC paid out $1.4 million in insurance. In 1983, net claims rose to $23.5 million. By 1984, they jumped to $201 million. And by 1985, they leaped to $1,137.8 million.[47] As a result of these escalating claims, the CDIC has had a deficit in its deposit insurance fund since 1982 which by 1985 amounted to $1.2 billion.

In addition to deposit insurance, the federal government made the unprecedented move of providing full compensation to all depositors with the CCB and Northland Bank. Bill C-79, an act to compensate uninsured depositors, received Royal Assent on December 20, 1985. The federal government has also moved to increase insurance premiums. Bill C-86, which was tabled before Parliament in 1985 and has subsequently received second reading, includes authority to increase the premium rate from 1/30 of one per cent to 1/10 of one per cent of insured deposits.[48]

POLICY OPTIONS

Under the Bank Act, banking legislation is revised at least once every 10 years. The next scheduled revision is 1990. However, the federal government may amend the Bank Act from time to time as circumstances warrant. As it now stands, the federal government does not intend to revise the Bank Act until is decennial review of 1990. The federal government does intend, however, to revise legislation governing other financial institutions and that will have a direct impact on the banking industry. In addition, the Government of Ontario is revising its Loan and Trust Act to allow trust companies to compete head-on with the banks in the area of commercial lending. Following is a brief discussion of some of the policy issues currently being considered.

On April 15, 1985 and on June 26, 1985, the federal government released its discussion paper (Green Paper) and technical supplement proposing broad changes to federally-regulated financial institutions. The main changes proposed for disucssion include:[49]

- Allowing the combination of non-bank financial institutions and a new class of bank under the umbrella of a financial holding company, giving these institutions greater flexibility in packaging financial services to meet the needs of businesses and individuals. This would include creation of a new class of banks -- Schedule 'C' banks -- which could be owned by a financial holding company.

- Adoption of new, tougher rules to ensure consumer protection and the soundness of financial institutions. A clear-cut, uncompromising ban on self-dealing that would prohibit most business dealings between a financial institution and its controlling interests is proposed.

- New steps to enhance the powers of government supervisors.
- Creation of a new public body to investigate complaints and represent consumer interests where conflict-of-interest situations lead to abuse.

The Green Paper proposals would permit financial conglomerates to develop through the use of financial holding companies (FHC). Although similar conglomerates exist today, such as Paul Desmarais's Power Corporation and Edward and Peter Bronfman's Edper Investments Ltd., the proposed federal changes would for the first time allow banks to be wholly-owned by a financial conglomerate, through the incorporation of Schedule 'C' banks under the Bank Act.

The creation of FHCs would allow financial conglomerates to provide a broad range of financial services without direct integration of the four-pillars. Thus, trust companies would continue to be limited in providing commercial loans, and banks would be restricted from providing fiduciary services. This is in contrast to Ontario's new Loan and Trust Corporations Act, which would allow Ontario-regulated loan and trust companies to invest to a maximum of 10 per cent of all investments in each area of commercial leasing and commercial lending. Currently, provincially-regulated trust companies are limited to 7 per cent of all investments in commercial leasing and lending.

An important implication of the federal Green Paper is that it would cause a larger share of financial services activity to fall under federal jurisdiction, as the entire FHC, included provincially-regulated subsidiaries, would be subject to federal controls. It has not been determined whether greater federal control would result in net benefits to society.

The House of Commons Standing Committee on Finance, Trade and Economic Affairs (Blenkarn Committee) has recommended that a National Financial Administration Agency (NFAA) be created to amalgamate all regulatory bodies under one super-regulatory agency. The NFAA would have broad powers and administer each financial institution according to the four-pillar structure, each with its own deposit insurance fund and regulatory component of the NFAA.[50]

On the other hand, the Senate Committee on Banking, Trade and Commerce rejected this proposal for a super-regulatory agency on the grounds that it doesn't recognize the historical evolution of the federal and provincial roles in the regulation of Canada's financial institutions.[51]

Another important public policy issue emerging from the Green Paper is the question of how to deal with conflicts of interest and self-dealing among financial institutions and between financial and non-financial institutions. Conflicts of interest arise "whenever a financial institution must choose between its own interests and those of a client on whose behalf it is acting or whom it is advising ....".[52]

In response to concerns over possible conflicts of interest, the federal Green Paper recommended the erection of "Chinese Walls" between two or more functions within a single institution. The walls would act as a wall of silence, prohibiting information exchange on clients. In that way, the financial institution would be unaware of potential conflicts of interest and would not engage in improper behaviour. The United States has adopted this approach for its financial institutions. The House of Commons report on financial institutions endorses the application of Chinese Walls, as did the Senate Committee in its report.

A more serious problem, that can affect the solvency of a financial institution, is self-dealing, generally defined as a non-arm's length transaction.[53] For example, self-dealing would occur if a financial institution provided a loan to one of its subsidiaries at terms and conditions more generous than those dictated by current market conditions.

The federal Green Paper proposed strict rules to severely limit the potential for self-dealing and recommended that regulatory authorities be given greater powers to monitor and enforce these rules. The House of Commons Committee rejected an absolute ban on self-dealing and instead recommended that financial institutions be permitted to engage in non-arm's length transactions except for those that could seriously jeopardize the solvency of a financial institution. The Senate Committee also rejected the Green Paper's proposed ban on self-dealing and recommended a three-tiered approach for screening abusive deals.

These recommendations are an attempt to protect the consumer from mismanagement and fraud. Nevertheless, should these safeguards fail, deposit insurance is provided to protect the unsophisticated depositor. With escalating insurance claims due to the recent bank and trust company failures, the federal government established the Working Committee (Wyman Committee) on the Canada Deposit Insurance Corporation (CDIC) in 1984. On April 24, 1985, the Working Committee submitted its report to the Minister of State for Finance. The Working Committee recommended that the CDIC Act be revised to broaden the powers of the Corporation to intervene directly into the operations of member institutions to ensure compliance and solvency; to improve CDIC's supervisory and examination functions; and to increase the insurance premium charged to reflect the level of risk among various financial institutions.[54] The Working Committee recommended that in order to enforce market discipline on both the depositor and financial institution, deposit insurance should only cover 90 per cent of individual deposits up to $100,000.

The House of Commons Committee recommended that the insured-limit of $60,000 be retained and that deposit insurance premiums be raised immediately. In addition, the Committee also recommended that each type of financial institution pay premiums into a separate insurance fund. Thus, banks would pay insurance premiums in a separate fund from trust companies. The Senate Committee supported the separate fund concept, but wanted full coverage for deposits of $25,000 and 80 per cent coverage for the next $50,000.

Finally, there has beeen renewed discussion regarding foreign ownership of Canada's financial institutions. The Green Paper proposed that the current non-resident ownership restrictions of 10 per cent of any class of equity and 25 per cent of total non-resident ownership in the aggregate be left unchanged but applied to proposed financial holding companies. The House of Commons Committee instead recommended the elimination of Schedule 'B' banks designations, and that foreign ownership be restricted in the same manner as those governing Schedule 'A' banks. The Senate Committee rejected the House of Commons Committee's recommendation regarding foreign ownership and recommended that existing restrictions be maintained.

Industry Recommendations[55]

The Canadian Bankers' Association, representing the interests of both Schedule 'A' and 'B' banks, has consistently provided input into the public policy process. Following is a brief synopsis of some of their recommendations to government.

One of the central themes of the CBA has been concern over special treatment provided to some institutions. The CBA expressed concern when the federal Green Paper proposed major reforms to legislation governing all federally-regulated financial institutions except banks. If large financial conglomerates were to be allowed to provide a complete range of financial services, the banks argued that they should be provided with the same opportunity.

Another cause of concern for the banks has been a series of trust company failures. The CBA argued that since banks have traditionally been more solvent than trust companies, the banks should not have to pay the same level of premiums. Instead, according to the CBA, the level of insurance premium should reflect the level of risk.

In its submissions to governments, the CBA has consistently argued for across-the-board restrictions on ownership. If a 10 per cent limit on individual ownership is appropriate for the banks, then, according to the CBA, it should also be appropriate for trust companies.

On the subject of foreign ownership, the CBA has been careful in expressing its views, as it represents both domestic and foreign banks. At one point, the foreign banks were threatening to break away from the CBA for not representing their best interests. Nevertheless, the Executive Office for Foreign Banks of the CBA submitted a position paper in 1983 supporting further development of Schedule 'B' banks in Canada, while recognizing that the banking industry should be predominately owned by Canadians.[56]

NOTES

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2. Ibid., p 236.

3. The Canadian Bankers' Association. "Schedule 'B' Foreign Banks", April, 1986 (mimeographed) and McCarthy & McCarthy, Op. Cit.

4. McCarthy & McCarthy. Op. Cit. "Foreign Bank Representative Offices: Regulations", p. 287-290.

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6. The Canadian Bankers' Association. Employment figures are as of February, 1985. Additional information on percentage of women employed and average salaries are unavailable for Schedule 'B' banks.

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8. Ibid. Table 5.

9. Statistics Canada. Gross Domestic Product, 1984.

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12. Canada. Senate Committee on Banking, Trade and Commerce. Thirteenth Proceedings on Subject-matter of Bill C-29, "Financial Institutions Depositors Compensation Act", December 19, 1985, pp 11-12.

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14. Martin Krossel. The Financial Industry: Two Decades of Change. December, 1984, p. 13.

15. Canada. House of Commons, Standing Committee on Finance, Trade and Economic Affairs. "The Status of Foreign Bank Subsidiaries", October 1982, p. 2.

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17. "The Status of Foreign Bank Subsidiaries" Op. Cit. p.44.

18. Ibid. "The Status of Foreign Bank Subsidiaries".

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21. Brian Metcalfe. "Increased Share for Foreign Schedule B Banks," Canadian Banker. Vol. 92, No. 6 (December, 1985) pp. 52 and 53.

22. It should be noted that direct comparison between countries is difficult due to different banking structures and accounting methods in each country., Op. Cit. House of Commons, October 1983, p. 5.

23. A source document used in the preparation of this section is the report of the Ontario Task Force on Employment and New Technology, Employment and New Technology in the Chartered Banks and Trust Industry. July 1985, pp. 26-34.

24. Interview with Mr. David McKinnon, former Executive Director at the Bank of Montreal. May 2, 1986.

25. Dr. H. Martens. Technological Change in Banking and Its Effects on Employment Patterns, 1965 - Present. August, 1984.

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27. Dr. H. Martens. Op. Cit. pp. 4, 8.

28. Ontario Task Force on Employment and New Technology. Op. Cit., pp. 41-2.

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53. Op. Cit. p.16.

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55. For a more detailed discussion of CBA policy positions see:

- "Comments on the Ontario Task Force on Financial Institutions: Final Report", May, 1986;
- "Comments on the Final Report of the Working Committee on the Canada Deposit Insurance Corporation", September, 1985;
- "Comments on the Technical Supplement to the Regulation of Canadian Financial Institutions: Proposals for Discussion", September, 1985.
- "Preliminary Comments on the Regulation of Canadian Financial Institutions: Proposals for Discussion", July 1985;
- "Financial Services Industry: Responding to the Public Interest", July, 1985;
- "Comments on the Interim Report of the Ontario Task Force on Financial Institutions", April 1985; and
- "The Regulation of Financial Institutions in Canada", A Submission to the Royal Commission on the Economic Union and Development Prospects for Canada. November, 1983.

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TABLE 1

CANADA'S LARGEST DOMESTIC BANKS, TOTAL ASSETS AND NET INCOME, 1985 *

DOMESTIC BANKS (12):	TOTAL ASSETS ($ Millions)	TOTAL ASSETS %	NET INCOME ($ Millions)	NET INCOME %
Royal Bank of Canada	96,017	22.3%	488.1	23.4%
Can. Imp. Bank of Commerce	75,834	17.6%	361.4	17.3%
Bank of Montreal	82,420	19.1%	339.2	16.2%
Bank of Nova Scotia	61,069	14.2%	303.6	14.5%
Toronto Dominion Bank	50,218	11.7%	415.6	19.9%
National Bank of Canada	23,340	5.4%	153.7	7.4%
Continental Bank of Canada	6,193	1.4%	17.5	0.8%
Mercantile Bank of Canada	4,239	1.0%	n.a.	n.a.
Bank of British Columbia	3,251	0.8%	7.5	0.4%
Morguard Bank of Canada	302	0.1%	n.a.	n.a.
Western & Pacific Bank	164	0.0%	0.4	0.0%
Bank of Alberta	106	0.0%	2.1	0.1%
Sub-Total: Domestic Banks	403,152	93.6%	2,089	95.0%
Sub-Total: Foreign Banks	27,431	6.4%	111	5.0%
TOTAL	430,583	100.0%	2,089.1	100.0%

* For the Fiscal Year from November 1, 1984 to October 31, 1985.

Source: The Canadian Bankers' Association. "Financial Statistics (Domestic Banks) - 1985 Year in Review," December 1985.

TABLE 2

CANADA'S LARGEST FOREIGN BANKS, RANKED BY TOTAL ASSETS, 1985

TOP 10 FOREIGN BANKS: (Country of Parent)	TOTAL ASSETS ($ Mill)	% Top 10	% Foreign	% Total
Citibank (US)	4,606.6	31.1%	16.8%	1.1%
Barclays Bank (UK)	1,617.7	10.9%	5.9%	0.4%
Chemical Bank (US)	1,349.2	9.1%	4.9%	0.3%
Banque Nationale de Paris (Fr.)	1,243.9	8.4%	4.5%	0.3%
National Westminster Bank (UK)	1,237.5	8.3%	4.5%	0.3%
Morgan Bank (US)	1,089.0	7.3%	4.0%	0.3%
Credit Lyonnais (Fr.)	1,014.6	6.8%	3.7%	0.2%
Bank of America (US)	991.2	6.7%	3.6%	0.2%
Credit Suisse (Switzerland)	918.3	6.2%	3.3%	0.2%
Societe Generale (Fr.)	764.6	5.2%	2.8%	0.2%
Sub-Total: Top 10	14,832.6	100.0%	54.1%	3.4%
Sub-Total: Foreign Banks	27,431.1		100.0%	6.4%
TOTAL: ALL BANKS	430,583.3			100.0%

* For the Fiscal Year from November 1, 1984 to October 31, 1985.

Source: Price Waterhouse. "Foreign Banks in Canada: 1985 Survey of Results," 1986.

TABLE 3

RELATIVE SIZE OF CANADIAN FINANCIAL INSTITUTIONS, BY TOTAL ASSETS, 1970-83

FINANCIAL INSTITUTION:	1983		1977		1970	
	($ Bill)	(%)	($ Bill	(%)	($ Bill	(%)
Chartered Banks	386.6	58.5%	141.5	54.9%	33.7	62.6%
Life Insurance Companies	70.7	10.7%	34.5	13.4%	n.a.	n.a.
Trust Companies	52.6	8.0%	23.2	9.0%	6.5	12.1%
Local & Credit Unions	45.9	6.9%	23.8	9.2%	5.1	9.5%
Mortgage Companies	39.4	6.0%	9.4	3.6%	3.7	6.9%
Property & Casualty Insurance Co.	16.9	2.6%	8.3	3.2%	3.1	5.8%
Finance Companies	12.8	1.9%	11.9	4.6%	n.a.	n.a.
Investment Dealers	8.6	1.3%	5.2	2.0%	1.7	3.2%
Other	27.9	4.2%	n.a.	n.a.	n.a.	n.a.
AGGREGATE TOTAL *	661.4	100.0%	257.8	100.0%	53.8	100.0%

* Not a true total due to possible double counting.

Note: Due to an accounting change in 1984, time series analysis for banks beyond 1983 is impossible.

Source: Martin Krossel. "The Financial Industry: Two Decades of Change," December, 1984.

TABLE 4

PROFILE OF CHARTERED BANK'S CLIENTELE BY SOURCE OF FUNDS, JANUARY 1986

		1986 *	
LIABILITIES:	($ Mill.)	% (1)	% (2)
Personal Savings Deposits	120,825	64.5%	27.2%
Non-personal and Notice Deposits	46,091	24.6%	10.4%
Gross Demand Deposits	17,291	9.2%	3.9%
Government of Canada	3,096	1.7%	0.7%
(1) TOTAL CANADIAN DOLLAR DEPOSITS	187,302	100.0%	42.2%
Shareholder Equity	19,132		4.3%
Other	31,209		7.0%
Foreign Deposits	206,667		46.5%
(2) TOTAL LIABILITIES	444,310		100.0%

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* Data for January includes estimates for the Canadian Commercial Bank.

Source: Bank of Canada. "Bank of Canada Review, March 1986," Table C3 and C4.

TABLE 5

PROFILE OF CHARTEDED BANKS CLIENTELE BY USE OF FUNDS, JANUARY 1986

	1986 *		
ASSETS:	($ Mill.)	% (1)	% (2)
Bank of Canada Deposits	5,696	2.9%	1.3%
Day-to Day Loans	33	0.0%	0.0%
Treasury Bills	10,458	5.3%	2.4%
Government of Canada Bonds	2,730	1.4%	0.6%
Short-term Loans	1,206	0.6%	0.3%
Provincial Loans	75	0.0%	0.0%
Municipal Loans	1,185	0.6%	0.3%
Canada Savings Bonds	1,171	0.6%	0.3%
General Loans	126,684	64.3%	28.5%
Residential Mortgages	41,427	21.0%	9.3%
Non-Residential Mortgages	3,633	1.8%	0.8%
Leasing Receivables	2,725	1.4%	0.6%
(1) TOTAL LOANS	197,023	100.0%	44.3%
Canadian Securities	12,936		2.9%
Canadian Deposits in other banks	5,632		1.3%
Other	26,022		5.9%
Foreign Currency Assets	202,696		45.6%
(2) TOTAL ASSETS	444,310		100.0%

* Data for January includes estimates for the Canadian Commercial Bank.

Source: Bank of Canada. "Bank of Canada Review, March 1986," Table C3 and C4.

TABLE 6

INDUSTRY CONCENTRATION, BY TOTAL ASSETS AND NET INCOME, 1985 *

DOMESTIC BANKS (12):	TOTAL ASSETS ($ Millions)	TOTAL ASSETS %	NET INCOME ($ Millions)	NET INCOME %
Royal Bank of Canada	96,017	22.3%	488.1	22.2%
Can. Imp. Bank of Commerce	75,834	17.6%	361.4	16.4%
Bank of Montreal	82,420	19.1%	339.2	15.4%
Bank of Nova Scotia	61,069	14.2%	303.6	13.8%
Toronto Dominion Bank	50,218	11.7%	415.6	18.9%
National Bank of Canada	23,340	5.4%	153.7	7.0%
SUB-TOTAL: TOP SIX BANKS	388,898	90.3%	2,062	93.7%
Continental Bank of Canada	6,193	1.4%	17.5	0.8%
Mercantile Bank of Canada	4,239	1.0%	n.a.	n.a.
Bank of British Columbia	3,251	0.8%	7.5	0.3%
Morguard Bank of Canada	302	0.1%	n.a.	n.a.
SUB-TOTAL: TOP TEN BANKS	402,882	93.6%	2,087	94.8%
Western & Pacific Bank	164	0.0%	0.4	0.0%
Bank of Alberta	106	0.0%	2.1	0.1%
SUB-TOTAL: DOMESTIC BANKS	403,152	93.6%	2,089	95.0%
SUB-TOTAL: FOREIGN BANKS	27,431	6.4%	111	5.0%
GRAND TOTAL: ALL BANKS	430,583	100.0%	2,200	100.0%

* For the Fiscal Year from November 1, 1984 to October 31, 1985.

Source: The Canadian Bankers' Association. "Financial Statistics (Domestic Banks) - 1985 Year in Review," December 1985.

TABLE 7

RELATIVE GROWTH OF FOREIGN BANK ASSETS IN CANADA, 1982 TO 1985

QUARTER ENDING	TOTAL DOMESTIC BANK ASSETS						UNFULFILLED FOREIGN BANK ASSETS *		
	Total		Domestic		Foreign		16% of Total Domestic Assets		
	($ Mill.)	(%)	($ Mill.)	(%)	($ Mill.)	(%)	(1)	(2)	(3)
Oct. 31/82	242,141	100%	226,603	93.6%	15,538	6.4%	38,743	23,205	59.9%
Jan. 31/83	241,742	100%	225,767	93.4%	15,957	6.6%	38,679	22,722	58.7%
Apr. 30/83	239,575	100%	223,490	93.3%	16,085	6.7%	38,332	22,247	58.0%
July 31/83	242,175	100%	225,144	93.0%	17,031	7.0%	38,748	21,717	56.0%
Oct. 31/83	242,311	100%	223,983	92.4%	18,328	7.6%	38,770	20,442	52.7%
Jan. 31/84	241,308	100%	223,282	92.5%	18,026	7.5%	38,609	20,583	53.3%
Apr. 30/84	246,435	100%	227,416	92.3%	19,019	7.7%	39,430	20,410	51.8%
July 31/84	248,297	100%	229,612	92.5%	18,685	7.5%	39,727	21,043	53.0%
Oct. 31/84	250,912	100%	230,691	91.9%	20,221	8.1%	40,146	19,925	49.6%
Jan. 31/85	255,072	100%	234,427	91.9%	20,644	8.1%	40,811	20,167	49.4%
Apr. 30/85	261,471	100%	240,098	91.8%	21,373	8.2%	41,835	20,462	48.9%
July 31/85	262,843	100%	240,400	91.5%	22,443	8.5%	42,055	19,612	46.6%
Oct. 31/85	275,622	100%	250,990	91.1%	24,631	8.9%	44,099	19,468	44.1%

* Refers to the unused pportion of the 16% ceiling established under the Bank Act.
(1) Maximum foreign bank assets authorized under the Bank Act.
(2) Unused portion of assets (Maximum Allowed - Current Assets).
(3) Share of unused assets as a % of maximum allowed.

Note: From 1981 to 1984, foreign bank assets were limited to 8% and later raised to 16%.

Source: The Canadian Bankers' Association. "Quarterly Increase in Total Domestic Assets," January, 1986.

TABLE 8

REGIONAL DISTRIBUTION OF ATM's ACROSS CANADA, 1983 TO 1985

	1 9 8 3		1 9 8 4		1 9 8 5	
REGION:	(#)	(%)	(#)	(%)	(#)	(%)
NFLD	0	0.0%	13	0.7%	19	0.8%
P.E.I.	0	0.0%	3	0.2%	5	0.2%
N.S.	16	1.3%	26	1.4%	44	1.8%
N.B.	5	0.4%	14	0.8%	30	1.3%
Quebec	120	9.8%	227	12.5%	378	15.8%
Ontario	579	47.1%	821	45.1%	1,086	45.3%
Man.	47	3.8%	71	3.9%	85	3.5%
Sask.	34	2.8%	43	2.4%	52	2.2%
Alberta	224	18.2%	307	16.9%	343	14.3%
B.C.	205	16.7%	294	16.2%	357	14.9%
Terr.	0	0.0%	0	0.0%	0	0.0%
TOTAL	1,230	100.0%	1,819	100.0%	2,399	100.0%

NOTE: As of January 31.

Source: The Canadian Bankers' Association. "Bank Facts, 1985," p.6.

TABLE 9

RELATIVE GROWTH OF BANKING ASSETS BY REGION (IN CONSTANT DOLLARS), 1971 TO 1983

Year	ONTARIO			CANADA		WORLD WIDE	
	$ 1971 Millions	% of Canada	% of World	$ 1971 Millions	% of World	$ 1971 Millions	Per cent Change
1971	n.a.	n.a.	n.a.	39,958	73.4%	54,428	n.a.
1972	n.a.	n.a.	n.a.	44,429	73.8%	60,211	10.6%
1973	n.a.	n.a.	n.a.	49,263	70.8%	69,592	15.6%
1974	21,347	n.a.	n.a.	51,840	70.6%	73,441	5.5%
1975	21,541	40.8%	29.1%	52,747	71.2%	74,079	0.9%
1976	22,148	40.0%	28.1%	55,355	70.2%	78,805	6.4%
1977	24,796	41.8%	28.4%	59,309	67.9%	87,334	10.8%
1978	27,977	42.1%	27.2%	66,446	64.6%	102,884	17.8%
1979	30,104	41.4%	26.6%	72,662	64.3%	113,049	9.9%
1980	30,304	39.9%	24.3%	75,862	60.9%	124,554	10.2%
1981	33,982	41.9%	24.3%	81,039	57.9%	140,005	12.4%
1982	33,278	43.1%	24.8%	77,159	57.6%	133,956	-4.3%
1983	31,009	42.5%	24.4%	72,937	57.5%	126,894	-5.3%
1984							
1985							

* Figures after 1981 are not directly comparable with earlier years, due to an accounting change implemented on November 1, 1981.

Source: The Ontario Task Force on Employment and New Technology, "Employment and New Technology in the Chartered Banks and Trust Industry", Appendix 13 to Final Report, Appendix D, p. 11.

TABLE 10

FULL-TIME BANK EMPLOYMENT BY PROVINCE, 1982 TO 1985

Province	1982 Number	1982 Per cent	1983 Number	1983 Per cent	1984 Number	1984 Per cent	1985 * Number	1985 * Per cent
NFLD.	1,857	1.2%	1,823	1.2%	1,723	1.2%	1,741	1.2%
P.E.I.	461	0.3%	450	0.3%	445	0.3%	443	0.3%
N.S.	4,382	2.9%	4,238	2.9%	4,256	2.9%	4,256	2.9%
N.B.	2,775	1.8%	2,663	1.8%	2,656	1.8%	2,641	1.8%
Quebec	32,217	21.2%	30,688	20.7%	29,936	20.3%	29,823	20.4%
Ontario	64,601	42.5%	64,199	43.3%	65,436	44.3%	65,257	44.6%
Man.	5,630	3.7%	5,551	3.7%	5,591	3.8%	5,491	3.8%
Sask.	4,482	3.0%	4,429	3.0%	4,510	3.1%	4,722	3.2%
Alberta	15,561	10.2%	15,050	10.1%	14,791	10.0%	14,279	9.8%
B.C.	19,602	12.9%	18,860	12.7%	18,094	12.2%	17,343	11.9%
Terr.	349	0.2%	326	0.2%	328	0.2%	297	0.2%
Canada	151,917	100.0%	148,277	100.0%	147,766	100.0%	146,293	100.0%

* 1985 figures are based on third quarter results seasonally adjusted.

Source: Canadian Bankers Association. Unpublished Data, January 21, 1986.

TABLE 11

REGIONAL DISTRIBUTION OF SCHEDULE 'A' AND 'B' BANK BRANCHES

REGION:	SCHEDULE 'A' *		SCHEDULE 'B' **		TOTAL	
	Number	Per cent	Number	Per cent	Number	Per cent
NFLD	138	2.0%	1	0.6%	139	1.9%
P.E.I.	30	0.4%	0	0.0%	30	0.4%
N.S.	245	3.5%	2	1.3%	247	3.4%
N.B.	179	2.5%	0	0.0%	179	2.5%
Quebec	1,272	18.0%	29	18.6%	1,301	18.0%
Ontario	2,782	39.4%	65	41.7%	2,847	39.4%
Man.	346	4.9%	1	0.6%	347	4.8%
Sask.	397	5.6%	2	1.3%	399	5.5%
Alberta	802	11.4%	26	16.7%	828	11.5%
B.C.	843	11.9%	30	19.2%	873	12.1%
Terr.	28	0.4%	0	0.0%	28	0.4%
CANADA	7,062	100.0%	156	100.0%	7,218	100.0%

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* As of May 1. 1985.

** As of 1984; head offices with a branch function are treated as one office.

Source: The Canadian Bankers' Association. "Bank Facts, 1985;" and Plow & Watters. International Banks in Canada," 1984.

TABLE 12

REGIONAL DISTRIBUTION OF BANKING ASSETS AND LIABILITIES, 1985

REGION:	TOTAL ASSETS ($ Mil.)	TOTAL ASSETS (%)	TOTAL LIABILITIES ($ Mil.)	TOTAL LIABILITIES (%)
NFLD	2,530	1.0%	2,180	0.9%
P.E.I.	704	0.3%	680	0.3%
N.S.	5,718	2.2%	5,495	2.3%
N.B.	4,133	1.6%	3,686	1.5%
Quebec	39,498	15.5%	40,452	17.0%
Ontario	103,062	40.5%	115,249	48.3%
Man.	9,029	3.5%	9,237	3.9%
Sask.	10,457	4.1%	8,147	3.4%
Alberta	43,865	17.2%	23,553	9.9%
B.C.	35,055	13.8%	29,306	12.3%
Terr.	394	0.2%	425	0.2%
DOMESTIC ASSETS	254,445	100.0%	238,410	100.0%
Domestic Assets	254,445	60.5%	238,410	56.7%
H.O./Internatn'l.	166,195	39.5%	182,301	43.3%
TOTAL ASSETS	420,640	100.0%	897,533	213.3%

Source: Bank of Canada. "Bank of Canada Review," January 1986, Tables C5 and C6.

TABLE 13

CANADIAN BANKING INDUSTRY RELATIVE TO WORLD'S TOP 500 BANKS, 1984

	CANADA *		WORLD TOP 500
	($US Mil)	% of 500	($US Mil)
Total Assets	271,180	3.6%	7,443,900
Shareholder Equity	9,689	3.4%	286,900
Net Income	1,382	4.7%	29,600

* Includes Canada's eight largest financial institutions in the Top 500: The Royal Bank (#23), Bank of Montreal (#32), Toronto Dominion (#34) Bank of Nova Scotia (#38), Canadian Imperial Bank of Commerce (#40), National Bank of Canada (#132), National Victoria & Grey Trust Co. (#264) and Continental Bank of Canada (#425); (#) refers to world ranking according to size of shareholder equity during 1984.

Source: "The Euromoney Five Hundred: The Annual Ranking of the World's Largest Banks," EUROMONEY, Special Issue, June 1984; with special tabulations.

TABLE 14

CANADA'S POSITION IN WORLD BANKING, TOP 100 AND 500, 1984

Selected Countries	TOP 100 *		TOP 500 *	
	Number	Per cent	Number	Per cent
Australia	4	4%	7	1.4%
Brazil	2	2%	12	2.4%
Canada	5	5%	8	1.6%
Denmark	0	0%	8	1.6%
France	5	5%	14	2.8%
Germany	5	5%	39	7.8%
Italy	7	7%	31	6.2%
Japan	20	20%	57	11.4%
Korea	1	1%	7	1.4%
Kuwait	0	0%	10	2.0%
Saudi Arabia	3	3%	9	1.8%
Spain	3	3%	14	2.8%
Switzerland	3	3%	13	2.6%
Taiwan	0	0%	7	1.4%
United Kingdom	7	7%	17	3.4%
United States	24	24%	140	28.0%
SUB-TOTAL	89	89%	393	78.6%

* Ranking is determined by size of shareholder equity in U.S. Dollars.

Source: "The Euromoney Five Hundred: The Annual Ranking of the World's Largest Banks," EUROMONEY, Special Issue, June 1985, p. 63.

COMPUTER SERVICES

DEFINITION

Statistics Canada classifies the computer services industry into two main groups: those primarily engaged in the provision of computer services and those primarily engaged in the rental or lease of EDP (electronic data processing) hardware. As the EDP hardware category is becoming increasingly sales oriented this profile will exclude EDP hardware from the discussion on the computer services industry where it accounts for more than two-thirds of a firms total revenue.

For the purposes of this study computer services will be defined to include:

- processing services and input preparation
- software & systems services
  - applications packages
  - systems development and maintenance
  - other software and systems services
- consulting and other computer services (including computer related education services, computer facility management, and feasibility studies).
- sales and rentals of computing and other EDP equipment
  - lease or rentals
  - sales of goods purchased for resale

The convergence of computers and telecommunications technologies is making it increasingly difficult to differentiate between technical aspects of the industry. The distinction between hardware and software is becoming blurred and the trend is towards the creation of an integrated "information services network". Consequently a redefinition of the industries and markets involved will be shortly required to accommodate the dynamics of this industry.

ONTARIO INDUSTRY STATUS

Establishments

- In 1983, there were 847 establishments providing computer services in Ontario. (see Appendix A, page 147) This represented 46% of total Canadian computer service establishments.

- The Special Data records 984 legal establishments in Ontario in 1983 which accounts for 46.5% of the Canadian total.*

- A further breakdown by type of service is not available. The large firms do provide all three services: consulting, hardware, and software. Most firms provide at least two types of services, usually consulting and software.

Employees

- In 1983, Ontario firms reported 11,751 paid employees which represented 53% of the Canadian total (see Appendix A, page 147).

- According to the Special Data there were 7,621 full year equivalent employees (fye) in 1983. This represented 54.6% of the Canadian total.

- Census data (1981) broke down the computer service industry into the following select 2 digit categories:

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* Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

	Composition %	1971-1981 Avg. Annual Rate of Change %
Clerical and related	29	19.5
Natural sciences, Engineering and Mathematics	39	25.2
Managerial, Administrative and related	15	26.1
Sales	5	24.0
Other	12	
Total Industry	100	23.2

Source: Ontario Task Force on Employment and New Technology

Women accounted for 35% of employees in 1981. This represented a slight decrease from 36.2% in 1971. The percentage of women in clerical and related occupations declined in the same period from 74.4% to 70.8%. In sales it increased from 5.3% to 23.3%, in managerial, administrative and related it increased from 8.2% to 25.8% and in natural sciences, engineering and mathematics it increased from 10.9% to 19.5%.

Revenue

- Statistics Canada data indicate that total operating revenue in Ontario was $780.9 million in 1983 which accounted for 54% of the Canadian total. (see Appendix A, page)).

- Of the total Ontario revenue, approximately 47.4% was accounted for by processing and input preparation, 26.4% by software and systems services, 13% by consulting and other computer services and 12.5% by the sale and rental of computing and EDP equipment.

- The service sector provided 77.3% of Ontario computer service revenues in 1983.

- Distribution by class of customer found that the financial sector provided 18.8% of Ontario computer services revenues. Services accounted for 16.1% and government 18.4%. Forestry, mining and manufacturing accounted for 20.1%.

Firm Size

- According to Statistics Canada data, 65.8% of the computer services firms in Ontario are small firms, employing fewer than five people each. Only 3.9% employ more than 51 people in each firm.

- Approximately 73% of Canadian firms with less than 5 employees reported revenues of under $100,000. At the other end of the scale 86.6% of those firms with over 100 employees reported revenues of over $5 million. Approximately 32% of the firms are in the mid-range of 5-100 employees.

- In Canada 49.8% of the establishments reported revenues of less than $100,000. These firms accounted for only 2.7% of the industry's total operating revenue. At the other end of the scale, the firms reporting revenues of $10 million accounted for only 1.1% of total establishments but 45.2% of the industries revenues.

Market Share

- The data processing industry is dominated by three large Ontario firms - Canada Systems Group, Crowntek, and I.P. Sharp. These three firms accounted for 78% of the processing revenues in 1983 and over 90% of the overseas services revenues.

- The software industry in Ontario is highly fragmented. Until 1983 hardware manufacturers dominated the industry and nearly all top hardware manufacturers are U.S. owned. The services sector has since become dominant due to the growth in demand for packaged application software.

- IBM continues to account for about 30% of the software market. However, the majority of the industry is characterized by hundreds of small firms, many being one person operations conducted out of individual homes.

- The consulting and other services sector is also highly fragmented though some large firms with revenues in excess of $5 million are emerging. In Ontario the largest firms are Computech and Systemhouse.

Foreign Ownership

- Approximately 96% of the Canadian computer services industry was more than 51% Canadian owned in 1983.

- According to the Special Data only nine or 0.9% of firms were foreign owned in 1983 and they accounted for only 3.6% of total employment. Of the nine firms, five were small businesses (less than 19 fye employees), three were medium-sized (20-90 fye) and only one reported more than 100 employees.

GDP

- The computer services industry in Ontario is relatively small, accounting for only .6% of GDP. However, the products and services derived from the industry affect all sectors of the economy and are crucial for ensuring productivity improvements and increased competitiveness for Ontario industry.

Trends

- According to Statistics Canada employment in the Ontario computer services industry rose steadily from 1979 to 1982, recording an annual average increase of 16%. It dropped from 1982 to 1983, from 12,318 to 11,751. In the next five years the growth rate is expected to average 21.5% per year with a slow down anticipated for the 1990-1995 period to 12.5% per year. A shift in the work force is expected with a decline in all areas except natural sciences, engineering and mathematics. A skills shortage is anticipated at the higher end of the scale until the year 2000.

- Total operating revenues amounted to $780.9 million in 1983, an annual average increase of 26.5% between 1979 to 1982. In constant 1971 dollars this represented an annual average increase of 15%. It is expected that revenues will continue to grow at around 15% between 1985 to 1990.

- The number of establishments rose between 1979-1983 by 150%.

Births and Deaths

- According to the Special Data the computer service industry in Ontario was extremely dynamic between 1978 and 1983. In this period 733 firms emerged bringing the total in 1983 to 984 legal entities. Approximately 98% of these new firms emerged in the small business area, employing fewer than 19 people each.

KEY ECONOMIC FACTORS AND INDUSTRY OUTLOOK

Between 1975 and 1982 the number of establishments in Ontario grew steadily, reflecting a young and dynamic industry. In that time operating revenues quadrupled to $751.4 million. (In constant 1971 dollars it experienced annual average growth rates of 17%). However, the industry was affected by the recession which saw profits fall from a high in 1981 of 14.1% to 1.7% in 1983. Operating revenue grew in that period by only 10% and employment declined slightly. According to industry representatives 1983 was the low point. The industry has apparently turned around and the outlook for further growth is extremely positive with annual growth rates of 15% to 16% projected by Evans Research to 1989. (see Appendices B and C, pages 148 and 149). The outlook does, however, vary across the subsectors.

Processing and Input Preparation

Growth in the processing services has slowed down significantly from an average rate of 19% from 1979-82, to 3.4% in 1983. The major factors contributing to the earlier growth were improvements in on-line storage technology, the emergence of reliable telecommunications networks designed for data transmission and developments in database management systems.

The slowdown in growth has been attributed to a shift to in-house computing. Since 1981 technological changes have contributed to a dramatic decline in the cost of computer hardware. As a result, small to medium sized in-house computers have become more cost effective than contracting out to a data processing bureau.

Processing firms have tried to adjust by expanding the type of service offered to include value-added and specialized services. These adjustments are difficult to implement as there are high fixed and capital costs associated with this sector which makes it less flexible and increases the cost of adjustment. An industry shake out is currently in progress.

The outlook for this sector according to Evans Research is that the market will continue to shrink in the mid 1980's. However, expansion into other services will result in the re-growth of the processing industry in the 1988 to 1989 period. It is projected that the industry will grow by 8% in 1988 and 1989.

It must be noted that though the industry appears to be in decline employment is not expected to fall due to labour absorption by the more successful firms and the shift to in-house activity.

Software and Systems Development

The software industry in Ontario is fragmented for two major reasons: the entry barriers are negligible due to the low capital requirements and there is a need for highly diverse products as customization for individual users is frequently required. The small size of firms makes it difficult to capture economies of scale. There are also other disadvantages such as a general lack of management expertise and difficulties in obtaining financing which hinders both product development and marketing initiatives. The positive aspects of the small size are that it allows more flexibility in responding to the rapid product changes brought about by new technology.

There has been considerable growth in the Ontario software industry. Annual average growth rates in operating revenue between 1979-83 were 36.1%. (The industry did slow down between 1982-83 to 10%). Technological changes which are resulting in the convergence of computing, telecommunications and office and industry automation will ensure that demand for software will continue to grow.

The greatest area of growth in demand is likely to be for packaged application programs. Most of the Canadian software is, however, custom built. Annual growth rates for the software industry is predicted to average between 20 - 25% until the end of this decade. It is expected that as competition increases and the industry matures a consolidation will occur resulting in a sector characterized by a few, large firms. The Canadian industry will have to remain at the leading edge in terms of technology (i.e. artificial intelligence) in order to remain competitive on an international scale.

Consulting and Other Services

Similar to the software sector, the consulting industry is also characterized by low entry barriers with similar costs and benefits. This sector has also experienced spectacular growth rates. This industry was practically non-existent in 1980. Between 1980 and 1983 it has experienced average annual growth rates of 79%. (see Appendix D, page 150) The consulting industry has benefitted from the same technological factors as those effecting software. Evans Research does, however, forecast a slowdown in growth for the industry to 6% by 1989 as the industry matures and consolidates.

To succeed in the future, Canadian firms in consulting and software will have to export. Those that continue to serve only the domestic market may be forced to operate in niche markets and this could prove increasingly difficult due to the growth in generic hardware and general standardization.

Employment

Employment is expected to grow in this industry with a slowdown anticipated by 1995. The average number of employees per firm decreased between 1979 and 1983. The increase in productivity experienced can be attributed to the application of new technologies. The impact of new technology will effect the structure of the labour force. The demand for clerical staff will decline but it will grow in the other areas and a critical shortage of skilled employees could impede further growth. The Ontario Task Force on Employment and New Technology noted that upgrading is the preferred method of firms to deal with the skills shortage. Recruiting and retraining ranked second and third respectively.

Computer services firms estimate that they currently spend 12.5% of total labour costs on training. This amount is expected to decrease and stabilize at 10% by 1990. Approximately 53% of training costs are related to new technology. It is anticipated that this will increase to 57% by the end of the decade.

Foreign Ownership

Unlike the hardware sector, the computer services industry is predominantly Canadian controlled. Factors explaining this phenomena include user concern over government intervention in cross-border data flows and the complication of keeping basic business records outside the country. Legislation requiring that banking records be maintained in Canada may also have played a role in discouraging the establishments of branch plants.

The computer service sector is a relatively young industry. As the U.S. market becomes saturated these firms can be expected to pursue foreign opportunities. Indeed this is already happening to some degree. The U.S. has identified computer services as an area in which free trade will be sought. Discussions with industry representatives indicate that the number of foreign computer service establishments in Canada has increased over the past two years. The long term prospects of these foreign firms are, however, uncertain as the domestic industry is considered to have matured and is generally regarded as being internationally competitive, at least in software and consulting.

ONTARIO INDUSTRY STATUS IN OUTSIDE MARKETS

The export of Canadian computer services is limited. In 1983 Ontario exported $61.2 million worth of services, accounting for 7.8% of total operating revenues. Ontario accounts for 73% of total revenues generated outside Canada. The consulting and software industries are considered to be internationally competitive and exports in these sectors are expected to grow (average annual growth rate of 21% is predicted for the software exports between 1982-89). However, lack of marketing and management skills and the high cost of adapting Canadian software to the needs of other countries pose impediments to increasing exports.

There are no figures available on the number of establishments outside Ontario or Canada controlled by Ontario firms. Discussions with industry representatives indicate that though the actual processing or servicing can occur in the head office, a physical presence is required in order to capture local business. The methods of operation vary from subsidiaries, to agency agreements, to licenses to sell software.

The American market remains the largest and easiest to access but it is fairly saturated and U.S. firms are aggressively seeking foreign markets. Canadian exports have also been directed to Britain, Asia and the Pacific Rim. There are no tariff barriers to international trade but there are several non-tariff barriers. They include privacy considerations, procurement policies, copyright law, deregulation, taxation policies and concern for political integrity.

ASSISTANCE CURRENTLY RECEIVED

Canada has no computer services strategy. There are no federal or provincial programs designed specifically to develop the industry. The software sector has recently been identified as eligible for assistance. There are also technological programs that indirectly impact on the computer service industry. Following is a list of the assistance programs available to Ontario firms from the Federal and Ontario governments.

Federal

- There are eight Federal technology programs that are in principle also relevant for the computer service industry. They are:
  - IRAP (Industrial Research Assistance Program)
  - NITP (National Industrial Training Program)
  - PILP (Program for Industry/Laboratory Projects)
  - SGF (Skills Growth Fund)
  - IRDP (Industrial and Regional Development Program)
  - SDF (The Source Development Fund)
  - Unsolicited Proposals for R&D Program
- The software industry was helped indirectly in 1981 when several scientific and research investment contracts tax shelters appeared on the market.
- In January 1984, the legislation on R&D tax credits became law.

- In 1983, purchases of applications software acquired under licence qualified for a 100% capital cost allowance write-off over a two-year period. Systems software became eligible for a 20-30% write-off.
- The Export Market Development Fund has assisted all areas, particularly consulting.
- Small Business Loans (from private lenders at prime plus 1% maximum loans are $100,000 and 10 years respectively).
- Department of Supply and Services is currently adjusting procurement policies with a view to provide greater support to the Canadian computer service industry.

Ontario

There are many technology related initiatives in Ontario that impact on the computer services sectors. They include:

- The 1981 Technology Strategy (BILD) allocated $100 million over 5 years to 6 technology centers.
- IDEA Corporation was established to finance and encourage technical innovation. Approximately $107 million was allocated over 5 years. The Machine and Automation Technology Fund and the Information Technology Fund are relevant for the software industry.
- Ontario Development Corporation has allocated $50 million to assist Canadian high technology firms.
- The Export Success Fund established in 1983 to provide financial assistance to Ontario companies trying to develop export markets was funded to a $4 million level in the 1984-85 fiscal year.
- In 1983-84 BILD made available approximately $7 million for education software. Most of the funds were allocated for the purchases of licences for the use of software, $2 million was designated for grants to develop indigenous software and courseware.

- The Ministry of Education allocated $5 million in 1984-85 to stimulate software development.

- The 1985 Ontario Budget made software firms eligible for the SBDC program. It was extended in the 1986 Budget to computer service firms.

Regulatory Environment

There are presently no government regulations aimed specifically at the computer services industry.

The 1980 Canadian Banks and Bank Revision Act requires that processing and maintaining Canadian bank operation records must be done in Canada. This has been flagged by the U.S. as protection of the Canadian computer services industry. In 1983, Banks and other deposit institutions accounted for 13.4% of Canada's and 11.8% of Ontario's total operating revenue in the computer service industry.

STATED POLICY WISHES

Industry Views

A number of views have been expressed by the various industry associations. CADAPSO, the major industry association (accounting for about 40% of the service industry revenues) notes that the major problems facing the industry are constraints on financing new business and the lack of marketing expertise. Tax concessions, rather than subsidies or grants, aimed at start-up firms are preferred by the association. The lack of trained experts in the various computer service fields is also regarded as a major impediment to the successful growth of the industry.

The Canadian Independent Computer Services Association (CICS) was mainly formed to lobby against any move towards free trade in computer services between Canada and the U.S. This association wants the federal government to limit the importation of computer services, to encourage the use of Canadian services and to stop transborder data processing. The industry claims that free trade in this area will result in a loss of up to 500,000 jobs in Canada.

CADAPSO strongly disagrees with CICS on the free trade issue. CADAPSO maintains that the Canadian industry has matured and can meet the international competition. It also maintains that the small size of the Canadian markets makes it imperative that access to the U.S. market is secured for Canadian firms.

Consumer Views

A consumer viewpoint has been strongly put forward by the Royal Bank which argues for free trade in computer services on the basis that the Canadian market size is indeed insufficient and that access to the American market is required. The bank also claims that free trade would ensure that Canadian industry would have better access to the latest technology in an area that has become increasingly important for the conduct of business.

APPENDIX A

ONTARIO FACT SHEET COMPUTER SERVICES

Principle Statistics	1983	1982	1981	1980	1979
No. of establishments	847	795	630	491	338
Employees	11,751	12,318	11,326	9,826	8,286
Total Operating Revenue ($M)	780.9	751.4	643.6	476.8	378.8
- software/systems dev.	207.9	187.1	168.6	117.7	85.0
- data processing	372.7	360.5	352.7	274.3	230.6
- consulting & other computer services	101.8	114.2	53.1	30.1	23.2
- leasing rentals	98.6	89.4	68.9	54.6	40.1
Exports ($M)	61.2	54.3	43.8	41.7	30.5
Revenue per firm ($000)	921.9	945.1	1,021.6	971.0	1,120.8
Salaries as % of total operating revenues	37.3	40.1	37.0	37.5	38.3
Average number of employees per firm	13.9	15.5	18.0	20.0	24.5
Revenue per employee ($000)	66.5	61.0	56.8	48.5	45.7

Source: Statistics Canada, Catalogue 63-222, years indicated.

APPENDIX B

CANADIAN INFORMATION PROCESSING INDUSTRY REVENUE FORECAST TO 1989

(C$ Millions - Includes Exports)

	Actual		Forecast						
	1981	1982	1983	1984	1985	1986	1987	1988	1989
Sales, Lease, Rental	2970	3645	4095	4750	5550	6525	7650	8810	10200
Maintenance	400	500	610	750	900	990	1100	1210	1300
	3370	4145	4705	5500	6450	7515	8750	10020	11500
Annual Growth (%)	28	23	14	17	17	17	16	15	15
Software									
Applications Packages	95	173	260	370	510	660	820	1020	1250
Systems Packages	154	213	295	375	475	590	725	890	1050
System Development	226	212	220	225	210	245	305	365	420
Total Software	475	598	775	970	1195	1495	1850	2275	2720
Annual Growth (%)	38	26	30	25	23	25	24	23	20
Consulting, Education, Misc.	170	230	280	340	425	520	610	650	690
Annual Growth (%)	21	35	22	21	25	22	17	7	6
Processing Services	655	735	735	720	700	650	600	650	700
Annual Growth (%)	19	12	0	-2	-3	-7	-8	8	8
	1300	1563	1790	2030	2320	2665	3060	3575	4110
Annual Growth (%)	26	20	15	13	14	15	15	17	15
	4670	5708	6495	7530	8770	10180	11810	13595	15610
Annual Growth (%)	27	22	14	16	16	16	16	15	15

Source: Forecast by Evans Research Corporation based on (1) Statistics Canada figures for 1981 and 1982; (2) Evans Research Corporation's annual survey of the top firms in the Canadian computer industry. EDP In-Depth Report Vol. 13, No. 12, December 1987.

APPENDIX C

CANADIAN INFORMATION PROCESSING INDUSTRY REVENUE FORECAST TO 1989

(C$ Millions - Excludes Exports)

	Actual		Forecast						
	1981	1982	1983	1984	1985	1986	1987	1988	1989
Sales, Lease, Rental	2210	2840	3184	3850	4600	5525	6550	7610	9000
Maintenance	392	490	600	740	890	980	1090	1200	1290
	2602	3330	3784	4590	5490	6505	7640	8810	10290
Annual Growth (%)	28	28	14	21	20	18	17	15	17
Software									
Applications Packages	87	158	235	340	475	620	775	960	1160
Systems Packages	140	193	275	360	460	565	690	850	1010
System Development	210	202	214	215	195	230	285	345	395
Total Software	437	553	724	915	1130	1415	1750	2155	2565
Annual Growth (%)	38	27	31	26	23	25	24	23	19
Consulting, Education, Misc.	163	220	265	320	405	500	580	615	645
Annual Growth (%)	21	35	20	21	27	23	16	6	5
Processing Services	625	700	705	685	660	605	550	590	625
Annual Growth (%)	19	12	1	-3	-4	-8	-9	7	6
	1225	1473	1694	1920	2195	2520	2880	3360	3835
Annual Growth (%)	26	20	15	13	14	15	14	17	14
	3827	4803	5478	6510	7685	9025	10520	12170	14125
Annual Growth (%)	27	26	14	19	18	17	17	16	16

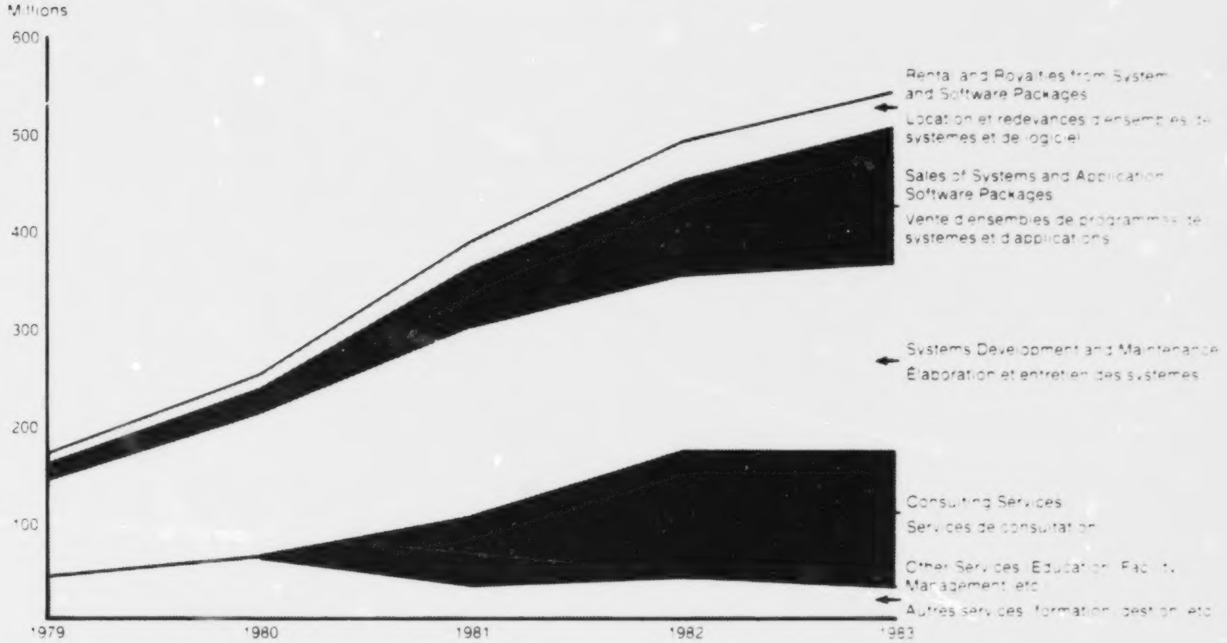
Source: Forecast by Evans Research Corporation based on (1) Statistics Canada figures for 1981 and 1982; (2) Evans Research Corporation's annual survey of the top firms in the Canadian computer industry. EDP In-Depth Report, Vol. 13, No. 12, December, 1984.

APPENDIX D

Chart 1

Distribution of Software and System Services Revenue for Establishments Primarily Engaged in Providing Computer Services, Canada 1979-83

Distribution des recettes de services de logiciel et de systèmes pour les établissements dont l'activité principale est de fournir des services informatiques, Canada 1979-83



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CONTACTS

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CONSULTING ENGINEERING

DEFINITION OF SECTOR

The consulting engineering industry is composed of professional engineers in private practice whose main source of revenue is the provision of engineering services for fees. The industry provides a wide range of services that are usually associated with the development and implementation of capital projects. These services include:

- feasibility studies to determine the economic viability or broader impact of a project;
- planning and design development, which includes preparation of site development plans, preliminary layout of the facility, process studies, design standards and equipment requirements;
- detailed design, involving all aspects of preparing final designs and drawings together with specifications for construction;
- field services during construction, including the verification of construction work for general conformity to drawings and specifications for the work; and
- project management, which involves representing the client and undertaking all or most of the administrative responsibilities of the project and, in addition, can include procurement of equipment and materials, manangement of construction and overall co-ordination of the project.

Based on the type of project and the sponsoring industry, Statistics Canada divides consulting engineering into the following twelve sectors:

- Agriculture, fisheries, forestry, forest products;
- Air and sea ports, harbours and terminals, postal works;

- Bridges, tunnels, highways and railways;
- Buildings;
- Dams, irrigation and flood control;
- Plant process design;
- Mining amd metallurgy;
- Municipal services;
- Petroleum and natural gas;
- Power generation, transmission and distribution;
- Telecommunications; and
- Miscellaneous.

The Standard Industrial Classification includes consulting engineering within "engineering and scientific services" (1970 SIC 864) or "architectural and engineering and other scientific services" (1980 SIC 775). As a result, data series commonly available from Statistics Canada do not isolate consulting engineering and are of limited value in constructing a profile of the industry. However, Statistics Canada undertook special surveys of the consulting engineering industry in 1974, 1978 and 1982 which provide the basis for a description of the industry. These surveys are supplemented by a series of reports which have been sponsored by the Department of Regional Industrial Expansion.[1] (See page 13, below, for endnotes.)

INDUSTRY STRUCTURE AND STATUS

Size

Based on estimates for Canada, the Ontario consulting engineering industry included approximately 900 firms in 1984, up substantially from about 600 firms in both 1980 and 1977.[2] Determining the exact number of firms in the industry is difficult because there are numerous independent practitioners and other very small firms. This difficulty is less likely to affect materially estimates of total employment in the industry. Based on estimates for Canada, the Ontario consulting engineering industry employed about 15,000 in 1984, down from 15,800 in 1982.[3] The 1984 estimate represents 0.35 per cent of total employment in Ontario.[4]

For Canada, a rough estimate is that the consulting engineering industry accounted for about one half of one per cent of GNP in 1983.[5]

Structure

Out of the approximately 900 consulting engineering firms in the Ontario industry in 1984, about 800 were small firms with fee revenues of less than $1 million and up to 20 employees. Small firms serve highly specialized or local markets and are unlikely to export. About 100 firms were medium sized, each with $10 million in revenue and employment of 15 to 150. Such firms provide diversified services to local clients or specialize to serve the national market. The export involvement of this size group varies from firm to firm. The Ontario industry included about 15 large firms with fee revenues in excess of $10 million and 150 or more employees. Such firms serve the national market, providing either specialized or diversified services. The large firms are more likely to export, but their involvement also varies from firm to firm.[6]

The distribution of industry fees by firm size is not available for Ontario. Statistics Canada's survey of consulting engineers in 1982 found that, for Canada, large firms ($10 million and over fee revenues) earned 50.5 per cent of total fee income from Canadian and foreign projects, medium-sized firms ($1 - $10 million fee income) 32.3 per cent and small firms 17.2 per cent. These results understate the significance of large-sized firms, since subsidiary companies completing their own survey forms were considered separate firms. The fees of a subsidiary of a large firm, as a result, might not be included in the large firm category.

The absence of provincial data on the distribution of fee income by firm size limits our understanding of the size distribution of the Ontario industry, but an important observation can be made comparing Ontario and Quebec. Among the approximately 33 large-sized Canadian consulting engineering firms, three are in a class by themselves -- Lavalin, SNC and Monenco. These firms, the "Big 3" in the industry, each have fee revenues in excess of $100 million and employ more than 4,000. These firms are more than twice the size of their nearest competitors. They provide diversified services to the national market and have considerable involvement in exports. All three firms are Quebec based, although each firm has subsidiaries and/or affiliated companies in Ontario. Combined, the "Big 3" are estimated to account for more than one-quarter of industry fee income. The existence of the "Big 3" distinguishes the structure of the Quebec industry from that in all other provinces, including Ontario.

Ownership

The Statistics Canada survey of the consulting engineering industry in 1978 found that 97.9 per cent of Canada's firms were completely Canadian owned. (Data on the country of ownership from the 1982 survey were not published.) Those firms which were, to varying degrees, foreign owned accounted for 8.9 per cent of total fee income. Most of these fees were earned by U.S. owned firms. No comparable figures are available for Ontario.

Recent Performance

Based on estimates for Canada, the total fee income of the Ontario consulting engineering industry in 1984 was about $725 million. Of this total, $620 million was earned from domestic projects and $105 million from exports.[7]

For the Canadian consulting engineering industry, provincial figures not being available, total fee income declined from 1982 to 1984 at a compound average annual real rate of 11 per cent per year, the result of shrinkage of the domestic market by 13 per cent per year and growth in exports of 2 per cent per year. This weak recent performance contrasts with the longer term trend of the Canadian industry, which from 1971 to 1984 increased its fee income at a compound average annual real rate of 4 per cent (3.6 per cent domestic, 6.3 per cent foreign).[8] During this same period, the average annual real increase in GNP was 3.1 per cent.

Ontario's consulting engineering industry shared in the recent downturn, to judge by annual employment figures provided by the member firms of the Consulting Engineers of Ontario (CEO). The CEO represents firms employing about two-thirds of employees in the industry. Employment in CEO firms reached 10,445 in 1982 and peaked in 1983 at 10,891, before declining to 9,516 in 1984 and 8,301 in 1985.[9]

Firm Entry

As described above, the number of firms in the Ontario consulting engineering industry increased from about 600 in 1980 to approximately 900 in 1984. This significant net increase in the number of firms is attributable to the start-up of many new, smaller companies. Many individuals laid off by larger firms during recent years started their own practice, offering highly specialized or highly localized services.

Regional Distribution

A survey of the Ontario engineering industry undertaken for the Government of Ontario in 1978 found that, in the mid 1970's, Metropolitan Toronto accounted for 42 per cent of the number of engineering firms and, taking into account their relative size, 63 per cent of industry activity.[10] Such patterns are slow to change, and it is probable that Metropolitan Toronto continues to account for a large share of the consulting engineering industry.

Client Distribution

The clients served by the Ontario consulting engineering industry are suggested by the distribution of its fee income by sector. In 1982, the largest share of fee income from Canadian projects was earned from plant process design, 20 per cent. In general, such projects are sponsored by manufacturers. Buildings generated 16 per cent of fees, municipal services 13 per cent and mining and metallurgy 11 per cent.[11]

KEY ECONOMIC FACTORS

Two features stand out in the description of the current status and structure of the Ontario consulting engineering industry. First, the recent poor performance of the industry in Ontario and Canada. Second, the difference in structure between the Ontario and Canadian industries, the latter including the "Big 3" firms, Lavalin, SNC and Monenco. What are the key factors accounting for these features?

The recent performance of the consulting engineering industry illustrates its vulnerability to the business cycle. The industry provides services related to capital investment projects and as a result the consulting engineering industry is similarly volatile. The recovery of investment throughout Canada from the effects of the 1982 global recession has been protracted. During the early 1980s, the decline in world oil prices resulted in the cancellation of several energy megaprojects. These cancellations reinforced the effect of the recession, further contributing to the reduction in work available to consulting engineers. As well, the continuing weakness of the Ontario industry reflected in the employment of CEO member firms is attributable to the effects of government restraint on public sector projects.

The dominant position of the Quebec based "Big 3" is attributed to the contracting-out policy of Quebec government agencies, in particular Hydro Quebec. A number of Quebec consulting firms have benefitted from this policy and have developed internationally recognized capability in hydro power generation and transmission. It is commonly asserted that the lack of a similar policy by the Ontario government, and Ontario Hydro, has inhibited the development of firms of similar international stature in Ontario.

OUTLOOK

The Consulting Engineers of Ontario anticipate a decline in the total employment of member firms from 8,300 in 1985 to about 7,800 in 1986. This decline is primarily the result of the impact of government restraint on firms providing engineering services for public sector projects.

In the medium to long term, the outlook for the consulting engineering industry is determined primarily by the performance of the domestic and international economies. Real growth, interest rates and the prices of key commodities such as oil are major influences on the volume and timings of capital projects. The outlook for the industry will also be influenced by government policies towards capital projects and the maintenance of public sector infrastructure during a period of spending restraint and deficit reduction. The extent to which governments contract out engineering work to consultants will also affect the prospects of the industry. In export markets, the outlook of the industry will primarily be a function of its competitiveness.

For the remainder of the 1980s, it is anticipated that the buildings and municipal services sectors, significant markets for Ontario consulting engineers, will continue the trend established during the last decade and diminish in relative importance. Plant process design, on the other hand, offers the opportunity for substantial growth through the late 1980s. This sector will benefit from the modernization of manufacturing industries incorporating new technologies such as computer-aided design and manufacturing and robotics and is the largest single domestic sector served by Ontario consulting engineers.[12]

ONTARIO INDUSTRY STATUS IN OUTSIDE MARKETS

Canadian Market

Statistics Canada's survey of the consulting engineering industry in 1982 found that of fees earned from Canadian projects by Ontario consulting engineers 79 per cent were earned from projects within the province and 21 per cent from projects located in other Canadian provinces. Almost all plant process design and 91 per cent of buildings fees were earned within the province, but half the fees earned from Canadian projects in mining and metallurgy and petroleum and natural gas were earned in other provinces. Mining and metallurgy, petroleum and natural gas, municipal services, and power generation, transmission and distribution in total accounted for 72 per cent of the fees earned by Ontario firms in other provinces.[13]

Foreign Markets

Based on estimates for the Canadian industry, Ontario consulting engineers exported about $105 million of services in 1984, 14 per cent of total fee income. This represented a modest increase from foreign fee income of $90 million, 11 per cent of total fees, in 1982.[14] Among the consulting engineers headquartered in Ontario, the largest exporters in 1984 included Acres International Limited, The Cansult Group, Hatch Associates Limited, Golder Associates, Watts Griffis & McQuat Limited and Kilborn Limited. For most of these firms, exports represented 40 to 50 per cent of total billings.[15] Canada's largest exporters were Lavalin, the SNC Group and Monenco, who collectively have been estimated to account for more than half of total exports of consulting engineering.[16]

Distribution by Country and Sector

Data on the distribution of foreign fee income by country and sector is not available for the Ontario consulting engineering industry. The two leading markets for Canadian consulting engineers in 1982 were Africa and the United States, where 22 and 20 per cent of foreign fees respectively were earned. The

Middle East, Far East and Latin America each accounted for 10 to 15 per cent of foreign project fees.[17] Whereas buildings, municipal services, petroleum and natural gas, and plant process design were the leading domestic sectors, 62 per cent of foreign fees was derived from projects in the power generation, transmission and distribution, agriculture, fisheries and forestry and forest products, mining and metallurgy, and plant process design sectors.[18]

The international competitiveness of Canadian firms is often based on the expertise developed through local experience, and therefore differs from province to province. Sectors showing particular strength include forestry in British Columbia, hydro electric development in Quebec and petroleum and natural gas in Alberta. It has been suggested that Ontario firms are particularly strong in serving the power generation and distribution, transportation, industrial process, mining and metallurgy and pulp and paper markets.

Method of Operation

In undertaking a foreign project, a consulting engineering firm will need to send a field team to gather basic information. Depending on the project, extensive work in the field may be necessary. There is an increasing emphasis by foreign countries and international institutions on the hiring of local consulting engineering firms. This may require establishment of a joint venture, consortia or affiliation with local firms and the consequent sharing of fees. The ability to train and transfer technology is an increasingly important competitive factor in markets where government policy encourages the development of local consulting firms.

REGULATORY ENVIRONMENT

The practice of engineering in Ontario is regulated by the Association of Professional Engineers of Ontario (APEO) in accordance with the Professional Engineers Act, 1984. In order to practice professional engineering in Ontario a person must obtain a licence from the APEO, which requires that the applicant meet certain academic and experience requirements. In order to provide professional engineering services to the public, a person or firm must obtain a "certificate of authorization" from the APEO. To obtain a certificate of authorization, the applicant must designate a licence holder who will supervise the professional engineering services provided to the public. All consulting engineers in Ontario must obtain a certificate of authorization, since they provide services to the public. While restricting the practice of professional engineering to qualified individuals, these regulatory requirements do not consititute significant barriers to entry into the consulting engineering industry by individuals or firms.

The Consulting Engineers of Ontario (CEO) is a voluntary organization of consulting engineering firms. The CEO includes about 350 memebr firms which represent approximately two-thirds of the consulting engineering industry in Ontario.[19] Since membership is voluntary, some consulting engineering firms choose not to join the CEO and many individual and small firms of professional engineers in private practice do not belong to the organization.

ASSISTANCE CURRENTLY RECEIVED

The following federal and provincial agencies assist exports by Ontario consulting engineers:

- Export Development Corporation;
- Department of External Affairs;
- Canadian International Development Agency; and
- Ontario International Corporation.

The Export Development Corporation, a federal Crown corporation, provides loans to finance the purchase of goods and service exports. The EDC generally arranges the financing of up to 85 per cent of the contract value of the export transaction. The repayment period is generally 5 years or longer. In recent years, the range of eligible service exports has been expanded and now includes engineering and consulting studies, feasibility studies, engineering and architectural design, project management, training, equipment installation services, exploration services, survey and mapping, planning services, and technology transfer. The EDC's financing services are subsidized by the federal government, which foregoes any return on its equity in the corporation in order to provide financing as low as the OECD consensus minimum rate. The EDC also provides a wide range of insurance services to Canadian firms to protect against the commercial and political risks of non payment by foreign buyers.

The Department of External Affairs administers the Program for Export Market Development (PEMD), which is intended to increase the export of Canadian goods and services by sharing with business firms the financial risks of entering new foreign markets. Section A of PEMD is designed to assist bidding on specific projects by consulting engineers and others. The program covers 50 per cent of the approved transportation and selected other costs of the bid, as well as a per diem allowance against personal extra costs. The PEMD contribution is repayable only if the contract negotiations are successful. Engineering companies are frequent users of the PEMD program.

The Canadian International Development Agency administers the Canadian Project Preparation Facility (CPPF). The CPPF supports Canadian consultants and engineers in undertaking project preparation studies of capital projects where there exists a good probability of project implementation. On a negotiated basis, the CPPF provides up to $350,000 per project. The CPPF has been used primarily by large consulting firms already established as exporters.

The Ontario International Corporation, created in 1980, assists the private sector in Ontario in exporting its expertise, including consulting engineering. The OIC administers the Export Success Fund, which provides consulting engineers and others with loans which cover up to half the cost to a maximum of $50,000 of feasibility studies, proposal preparation, and bid and performance bond premiums. These loans are repayable if a contract is successfully concluded.

STATED POLICY WISHES

The Ontario consulting engineering industry has a number of long-standing concerns with respect to government procurement of engineering services. In many submissions, the Consulting Engineers of Ontario have urged the provincial government to buy professional services rather than build up large in-house staffs. The perceived impact on the local consulting engineering industry of the contrasting policies of Hydro Quebec and Ontario Hydro has already been described. In addition, the CEO recommends that the Government of Ontario select consulting engineers on the basis of competence not price, and then negotiate acceptable remuneration.

The CEO supports the efforts of the Ontario International Corporation, while identifying areas for improvement. The CEO sees room for expanding the role of the OIC in collecting reliable data on projects at the incubation stage, recording data on the bidding for capital projects around the world and identifying credible agents to facilitate export sales. The CEO recommends that the Export Success Fund subsidize the cost of language training for exporters.

They also recommend that the Export Success Fund provide grants to small firms which may have special skills or unique international contacts but lack sufficient resources to mount appropriate marketing effort abroad.

The CEO recommends that provincial bodies and municipalities obtaining provincial subsidies be prevented from competing with the private sector in the domestic and international marketplace when skills are readily available from private enterprise. In 1984, the CEO and Ontario Hydro signed a Memorandum of Understanding concerning the export of electric power technology in which Ontario Hydro agreed to withdraw from any foreign project if an Ontario engineering consultant is known to be on the selection list and to offer its support to the private firm. This Memorandum was renewed in January, 1986. The CEO also has concerns about the international marketing of engineering services by half a dozen or more Provincial ministries and the Toronto Transit Commission.

The Consulting Engineers of Ontario claim that Ontario's highway infrastructure is deteriorating at an alarming rate, based on recent reports by TRIP (The Road Improvement Program) Canada, an industry group led by the Canadian Construction Association. Accordingly, the CEO recommends an adequate program to restore this infrastructure. In the past, consulting engineers have recommended the acceleration of capital construction projects to dampen the cyclic amplitude of the construction industry.

Another area of long standing concern on the part of the consulting engineering industry is the taxation of income earned abroad. In 1982, the Consultative Committee on the Canadian Consulting Engineering Industry recommended that Canadian citizens who are bona fide residents of a foreign country for at least 10 months in any taxable year be allowed to exclude foreign earned income from taxable income.

ENDNOTES

1. Statistics Canada, Architectural Engineering and Scientific Services, 1982 (Catalogue 63-537). Statistics Canada, Engineering and Scientific Services, 1978 (Catalogue 63-537). Statistics Canada, Consulting Engineering Services, 1974 (Catalogue 63-528).

   Peter Barnard Associates, Coming to Grips with Change, A Report on the Canadian Consulting Engineering Industry (February, 1985). Previous studies of the industry by Peter Barnard Associates were published in 1981 and 1978.

   The 1982 Statistics Canada survey and the 1985 Peter Barnard report were the principal sources used in preparing the sector profile. These will be cited below as "Statistics Canada" and "Barnard" respectively.

2. Barnard estimates the number of Canadian firms as 2,700 in 1984, 1,700 in 1980 and 1,600 in 1977 (p. 1.6). Statistics Canada shows Ontario with 773 out of Canada's 2,236 firms, or 34.57 per cent, in 1982. The 1978 Statistics Canada survey showed Ontario with 36.24 per cent of Canada's firms. Applying the Statistics Canada ratios to the Barnard estimates yields the following Ontario estimates:

   - 0.3457 x 2,700 = 933 (rounded to 900) for 1984;
   - 0.3457 x 1,700 = 588 (rounded to 600) for 1980;
   - 0.3624 x 1,600 = 580 (rounded to 600) for 1977.

3. Barnard estimates Canadian industry employment at 42,865 (rounded to 42,900) in 1982 and 40,755 (rounded to 40,800) in 1984. Statistics Canada shows Ontario firms accounting for 36.82 per cent of paid employees in the Canadian industry. Estimates for Ontario were derived as follows:

   - 0.3682 x 42,865 = 15,783 (rounded to 15,800) for 1982;
   - 0.3682 x 40,755 = 15,006 (rounded to 15,000) for 1984.

4. Ontario's 1984 employment was 4,243,000.

5. Unpublished Statistics Canada data for 1970 SIC 864 shows GDP for "engineering and scientific services" as $2,519.0 million in 1983. This equals 0.72 per cent of Canada's GDP. In the 1982 survey of architectural, engineering and scientific services, Statistics Canada shows consulting engineering with a payroll of $1,301.157 million and "other architectural, engineering and scientific services" (excluding consulting engineers and offices of architects) with salaries and wages of $437.135 million. If these two categories combined are assumed representative of 1970 SIC 864, then consulting engineering represented 1,301.157/(1,301.157 + 437.135) = 0.749 of the total. Applying this ratio to the SIC 864 share of GDP yields 0.749 x 0.72 = 0.54 per cent, rounded to 0.5 per cent.

6. Based on Barnard Exhibit 1.4 and Statistics Canada data on the number of Ontario and Canadian firms within given fee income ranges. Ratios based on the Statistics Canada data were applied to the Barnard estimates to derive the Ontario estimates as shown in the following table.

CONSULTING ENGINEERING FIRMS, BY FEE INCOME RANGE, CANADA AND ONTARIO
(Number)

Fee Range	Ontario	Canada	Ontario/ Canada	Barnard Estimate	Ontario Estimate*
Under $100,000	337	947	0.3559	1,100	391
$100,000-$999,999	325	989	0.3286	1,200	394
$1 - $10 million	96	266	0.3609	300	108
$10 million and Over	15	34	0.4412	33	15
Total	773	2,236	0.3457	2,633	908

* Ontario/Canada ratio applied to Barnard estimate.

Source: Statistics Canada, Barnard.

Ontario estimates were made for three ranges: under $1 million (391 + 394) = 785, rounded to 800; $1 million to $10 million, 108, rounded to 100; and $10 million and over, 15.

7. Statistics Canada ratios of Ontario to Canada were applied to Barnard's estimates for Canada as shown in the following table.

CONSULTING ENGINEERING FEE INCOMES, CANADA AND ONTARIO, 1984
($ Millions)

	Barnard Estimate	Ontario/ Canada*	Ontario Estimate**
Domestic	1,774	0.3486	618
Exports	340	0.3083	105
Total	2,114	0.3441	727

* Statistics Canada.

** Statistics Canada ratio applied to Barnard estimate

Source: Statistics Canada.

The Ontario estimates were rounded off to the nearest $5 million as follows:

. domestic project fees, $620 million;

. foreign project fees, $105 million; and

. total fees, $725 million.

8. Barnard estimates.

9. Attachment to letter to George Radwanski from W. Weinstein, P. Eng., Executive Director of Consulting Engineers of Ontario, dated December 12, 1985.

10. Donald N. Dewees, Stanley M. Makuch and Alan Waterhouse, An Analysis of the Practice of Architecture and Engineering in Ontario (1978, a working paper prepared for the Professional Organizations Committee established by the Attorney General of Ontario), page 140. Metropolitan Toronto was defined by the first letter of the postal code being "M". Engineering firms and "mixed" architecture-engineering firms were considered together.

11. See Appendix Table A.

12. Sectoral outlook based on forecast for Canada by Barnard.

13. See Appendix Table A.

14. 1982 estimate for Ontario based on the methodology described in endnote 7, above. Barnard estimates Canadian exports in 1982 as $292 million. Based on Statistics Canada's ratio, Ontario exports are estimated as 0.308 x 292 = 89.9, which rounds to $90 million. Barnard estimates total fee income as $2,430 million. Using the Ontario share of total fees from Statistics Canada, Ontario's fees are estimated as 0.344 x $2,430 million = $836 million. Ontario exports relative to total fees are 90/836 = 10.8 per cent, which rounds to 11 per cent.

15. See Appendix Table B

16. Barnard, page 3.2

17. See Appendix Table C

18. See Appendix Table D

19. See endnote 9, above. In 1984 the CEO included 350 member firms with total Ontario employment of 9,516, of which 2,904 were professional engineers. Relative to the estimate of total employment in the consulting engineering industry of 15,000 (see endnote 3, above), the CEO represented firms account for 63 per cent of employment (9,516/15,000 = 0.634).

APPENDIX

FEE INCOME FROM CANADIAN PROJECTS OF ONTARIO CONSULTING ENGINEERING FIRMS, BY SECTOR, 1982

APPENDIX TABLE A

	Fee Income		Fees Earned in Other Provinces		
	$ Millions	Per Cent	$ Millions	Per Cent Sectoral Fees*	Per Cent Other Prov. Fees**
Agriculture, fisheries, forestry, forest products	6.1	1.0	0.2	3.9	0.2
Air and sea ports, harbours and terminals, coastal works	27.0	4.2	4.5	16.5	3.3
Bridges, tunnels, highways and railways	48.1	7.5	14.4	30.0	10.8
Buildings	102.5	16.1	9.3	9.1	7.0
Dams, irrigation and flood control	7.8	1.2	2.8	35.9	2.1
Plant process design	130.1	20.4	1.2	0.9	0.9
Mining and metallurgy	72.8	11.4	37.9	52.0	28.3
Municipal services	85.2	13.4	18.2	21.4	13.6
Petroleum and natural gas	43.5	6.8	23.0	52.9	17.2
Power generation, transmission and distribution	46.5	7.3	16.7	36.0	12.5
Telecommunications	4.4	0.7	1.0	23.0	0.8
Miscellaneous	63.7	10.0	4.7	7.3	3.5
Total specified	637.7	100.0	133.9	21.0	100.0
Unspecified	43.1	-	-	-	-
Total	680.8	-	-	-	-

* Fees earned in other provinces as a per cent of all fees from Canadian projects in that sector.

** Fees earned in other provinces by sector as a proportion of total specified fees earned in other provinces ($133.9 million).

Source: Statistics Canada, Catalogue 65-537 (1982)

ONTARIO AND CANADIAN FIRMS AMONG THE TOP 200 INTERNATIONAL DESIGN FIRMS, 1984

APPENDIX TABLE B

	Location	Top 200 Rank	Foreign Billings Range (U.S. $ Million)	Foreign Billings % of Total Billings
Ontario Firms				
Acres Int'l Ltd.	Toronto	69	10 to 19.99	51
The Cansult Group	Don Mills	87	10 to 19.99	44
Hatch Associates Ltd.	Toronto	90	10 to 19.99	52
Golder Associates	Toronto	118	5 to 9.99	48
Watts, Griffis & McQuat Ltd.	Toronto	175	3 to 4.99	67
Kilborn Ltd.	Toronto	187	3 to 4.99	10
Other Canadian Firms				
Lavalin Int'l Inc.	Montreal	2	50 plus	38
The SNC Group	Montreal	11	30 to 49.99	36
Monenco Ltd.	Montreal	15	30 to 49.99	48
Sandwell & Co. Ltd.	Vancouver	83	10 to 19.99	48
Hydro-Quebec Int'l	Montreal	113	5 to 9.99	100
UMA Group Ltd.	Vancouver	120	5 to 9.99	20
Swan Wooster Engineering Co. Ltd.	Vancouver	146	5 to 9.99	29
N.D. Lea & Assoc. Ltd.	Vancouver	194	3 to 4.99	46
Dessau Consultants	Quebec	199	3 to 4.99	17

Source: "ENR Top International Design Firms," Engineering News-Record, August 1, 1985.

FOREIGN FEE INCOME EARNED BY CANADIAN CONSULTING ENGINEERING FIRMS, BY LOCATION OF PROJECT, 1982

APPENDIX TABLE C

	Foreign Fees	
	($ Millions)	(Per Cent)
Africa	55.1	22.1
United States	50.6	20.4
Middle East	35.7	14.4
Far East	30.1	12.1
Latin America	25.6	10.3
Europe	17.6	7.1
Australia	17.0	6.9
Caribbean	12.4	5.0
Unspecified	4.5	1.8
Total	248.6	100.0

Source: Statistics Canada, Catalogue 63-537 (1982)

FEES FROM DOMESTIC AND FOREIGN PROJECTS EARNED BY CANADIAN CONSULTING ENGINEERING FIRMS, BY SECTOR, 1982

APPENDIX TABLE D

	Domestic Project Fee Income		Foreign Project Fee Income	
	($ Millions)	(Per Cent)	($ Millions)	(Per Cent)
Agriculture, fisheries, forestry, forest products	76.7	3.9	43.5	17.5
Air and sea ports, harbours and terminals, coastal works	85.4	4.3	4.9	2.0
Bridges, tunnels, highways and railways	136.6	6.9	9.2	3.7
Buildings	302.3	15.3	13.2	5.3
Dams, irrigation and flood control	87.9	4.4	11.2	4.5
Plant process design	218.8	11.1	28.3	11.4
Mining and metallurgy	159.9	8.1	35.3	14.2
Municipal services	225.2	11.4	20.3	8.2
Petroleum and natural gas	221.3	11.2	17.4	7.0
Power generation, transmission and distribution	161.9	8.2	46.1	18.5
Telecommunications	14.0	0.7	1.2	0.5
Miscellaneous	163.0	8.2	13.6	5.5
Unspecified	126.7	6.4	4.5	1.8
Total	1,979.7	100.0	248.6	100.0

Note: Appendix Table D presents data on Canadian firms, whereas Appendix Table A presents data on Ontario firms.

Source: Statistics Canada, Catalogue 63-537 (1982)

DESIGN INDUSTRIES

INTRODUCTION

This paper profiles Ontario's design industries, focussing on the providers of industrial, graphic, interior and fashion design services. Statistics Canada's 1970 Standard Industrial Classification system includes these industries in its residual category, "Miscellaneous Services to Business Management" (SIC 869). Since SIC 869 includes a wide range of services to business management not elsewhere classified -- from telephone answering to customs brokers -- it is not possible to infer a description of the design industries even from three-digit data. The approach taken in this paper is therefore to draw a profile of these industries on the basis of interviews with industry participants and industry association representatives.

The four design industries reviewed in this paper -- industrial, graphic, interior and fashion -- provide very different services and are therefore profiled separately. Although firms may provide services in more than one design field, in no case was a leading firm in one design industry also identified as a leading firm in one of the other three. Both the number of firms and total employment in the four industries vary signficantly, with interior design and graphic design being much larger than fashion design or industrial design.

PART I: INDUSTRIAL DESIGN

Definition

Industrial designers, in brief, are "form-givers to products". The Association of Canadian Industrial Designers Ontario provides the following more comprehensive definition of industrial design:[1]

> Industrial Design is the professional service of creating and developing concepts and specifications that optimise the appearance, function, and value of products and systems for the mutual benefit of both user and manufacturer.
>
> Industrial Designers develop these concepts and specifications through collection, analysis, and synthesis of data guided by the special requirements of the client or manufacturer. They are trained to prepare clear and concise recommendations through drawings, models and verbal descriptions.
>
> Industrial Design services are often provided within the context of cooperative working relationships with other members of a development group. Typical groups include management, marketing, engineering, and manufacturing specialists. The Industrial Designer expresses concepts which embody all relevant design criteria determined by the group.
>
> The Industrial Designer's unique contribution places special emphasis on those aspects of the product or system which relate most directly to human characteristics, needs and interests. This contribution requires sepecialized understanding of visual, tactile, safety, and convenience criteria, with concern for the user. Education and experience in anticipating psychological, physiological, and sociological factors which influence and are perceived by the user, are essential Industrial Design resources.
>
> Industrial Designers also maintain a practical concern for technical processes and requirements for manufacture; marketing opportunities and economic constraints; and distribution, sales and servicing arrangements. They work to ensure that design recommendations utilize materials and technology effectively, and work with the client to comply with legal and regulatory requirements.

Industry Status and Outlook

Most industrial designers are employed by manufacturing firms or act as freelance consultants. There are only 20 to 30 industrial design consulting firms in Ontario. Total employment in these firms, including support staff, does not exceed 125 people. The Toronto Yellow Pages listings of industrial design firms would seem to imply that there are more than 20 to 30 consulting firms in Ontario, but many of these Yellow Pages listings are for firms whose primary business is not industrial design, but rather graphic design, interior design or some other field.

The leading Ontario industrial design consulting firms include Adamson Industrial Design Inc., John Arnott and Associates Ltd., and Kuypers Adamson Norton Ltd. These firms each employ 6 to 12 people, including support staff. Other significant members of the Toronto industrial design industry include Arato Designs Ltd., The Four Square Group, Gidman Design Associates Ltd., McIntosh Design, Keith Muller Ltd., and Ove Design Toronto.

Industrial design consulting firms are locally owned. There are no branch offices in Ontario of U.S. firms. It is rare for an Ontario firm to be a branch of an industrial design firm based in another province. It is also rare for an Ontario consulting firm to have a branch office in another province or country.

The impression of industry participants is that industrial design has grown faster than the economy as a whole during the past 5 years. During the 1981-82 recession, industrial companies retrenched but continued to develop new products in an attempt to recapture growth. There is some feeling of increased awareness by manufacturing industry of the competitive significance of industrial design, perhaps in part the result of an increasing number of industrial design graduates from Ontario educational institutions over the past decade. Although the industry participants viewed the past 5 years as ones of relatively strong growth for the industrial design industry, they were more cautious in their characterization of the immediate and near term outlooks.

The Ontario industrial design consulting industry is primarily located in and around Toronto. Perhaps 25 per cent of the Ontario industry is located in Ottawa, serving among others Kanata's high tech manufacturers, 50 per cent in Toronto, and the rest of the Ontario industry in the golden triangle area around Metropolitan Toronto.

The manufacturing firm customers of industrial design consultants tend to be medium-sized, Canadian owned companies employing 100 - 150 persons. These manufacturers are too small to have developed in-house design staffs and therefore rely on consultants. The Canadian subsidiares of U.S. companies tend to bring up finished designs from the United States rather than relying on Ontario design consultants.

Status in External Markets

As noted above, Ontario-based industrial design consulting firms in general do not maintain offices in other provinces. Manufacturers based outside Ontario will travel to Toronto to seek the advice of industrial design consultants. Alternatively, the consultant may travel to the client, with the work being done back at the Toronto office.

Within Canada, about 50 per cent of industrial design consulting is carried out by Ontario-based firms, 45 per cent by Quebec firms and the remaining five per cent by firms based in other provinces. Relative to its share of manufacturing activity and corporate head offices, Quebec has a disproportionate share of Canada's industrial design consultants. It seems that Quebec manufacturers are more willing to take the risk on innovative industrial design. It could also be that Quebec manufacturing disproportionately consists of small and medium sized, indigeneous firms for whom hiring an industrial design consultant makes the most sense. Finally, Quebec manufacturers may prefer to work in French and therefore choose Quebec-based industrial design consultants.

Export billings constitute only a small share of the revenues of Ontario industrial design consultants. Most firms earn less than ten per cent of their revenues from exports. In addition to Canada's cheap dollar, an advantage of industrial design firms in export markets is that the lack of opportunity for extreme specialization has meant that Canadian design firms have had involvement with many companies using different types of materials and as a result are flexible and provide a comprehensive service for the client. This flexibility and comprehensiveness is appreciated by smaller firms in the U.S. At the same time, Ontario-based industrial design firms face the disadvantages in U.S. markets of transportation costs, lack of familiarity with local suppliers and difficulties in developing personal relationships with clients.

Industrial design work is often indirectly exported when it is incorporated in traded manufactured goods. Design can often provide the basis for competitive product differentiation and consequently export success. However, Canadian manufacturers seem to lag their Japanese, American and European competitors in the effective use of industrial design. Based on his experience in both Canada and the United States, one industrial design consultant noted that in the United States new product development is considered a normal part of doing business, whereas this is not the case in Canada. The factors cited in explanation of Canada's lag in industrial design seem to be the same as those that explain Canada's relatively poor industrial R&D performance. The size of the Canadian market makes it hard to justify the product-specific fixed costs of design and tooling. Foreign ownership has encouraged the production in Canada of designs developed by the parent corporation in the United States or elsewhere. The development of Ontario's auto industry has resulted in an industry in which new product development generally has not occurred. Since the auto industry tends to figure prominently in a country's industrial design, this has adversely affected the climate for new product development in Ontario manufacturing generally.

Government Polices and Proposals

The federal Industrial Design Act grants exclusive intellectual property rights with respect to original shape and ornamentation to the registrant of an industrial design. The designer or the company employing the designer can register the design. Industrial design property right protection is initially granted for five years and is renewable for a further five-year term. In fiscal year 1985-86, 1,817 industrial designs were registered.[2]

In 1984, Ontario passed the Chartered Industrial Designers Act. This legislation granted the Association of Canadian Industrial Designers - Ontario control over the designation "chartered industrial designer", but maintained the right of any person not a member of the Association to practice industrial design without hinderance.

The National Design Council (NDC) was established by the federal government in 1961. After several years of declining levels of activity, the NDC was terminated on the recommendation of the recent Neilson Task Force on Program Review. The objectives of the National Design Council were to promote and expedite improvement of design in the products of Canadian industry. The NDC and its associated body within the Department of Regional Industrial Expansion, Design Canada, provided grants to companies undertaking contracted industrial design, awarded scholarships to industrial design students and presented awards for excellence in design. The passing of the National Design Council does not appear to be lamented by industry participants, although the functions of providing scholarships and, perhaps, awards of excellence are viewed as useful government activities.

Design Canada, in cooperation with some of the provinces, provided grants to manufacturing firms hiring industrial design consultants. The latest variation of this program, the Product Development Management Program, expired in March 1984. This assistance program was viewed negatively by the industrial design consultants who were contacted. They argued that those manufacturing firms requiring government grant assistance in order to undertake a new product development lacked the necessary commitment to the project and probably lacked the necessary financial resources to sustain the project through production and marketing (much more expensive stages than that of design itself).

Design Canada ran a scholarship program, terminated in November 1984, which assisted design students in undertaking post-graduate studies outside Canada. This scholarship program was established in view of the desirability of young designers studying in countries such as the United Kingdom, Switzerland, Italy and the United States and the high expenses involved in such study. Tuition fees alone for post-graduate studies in these countries now run $10,000 per year. In recent years there typically were 75 entries and perhaps 13 scholarships awarded, of which five or six were to Ontario residents. In its final years, Design Canada's scholarship program cost approximately $150,000 per year in dispersed scholarships. Most of the outstanding figures in Canada's industrial design community today were recipients of these scholarships.

In 1980, the National Design Council instituted the Design Canada awards for excellence in industrial design. In 1984 these awards were integrated into the broader Canada Awards for Excellence. The general feeling in the design community is that the role of design got lost in the process of collapsing the Design Canada awards into the broader Canada Awards.

Canada's leading educational institution in industrial design is the School of Industrial Design at Carleton University. The Carleton program produces approximately 15 graduates per year. Important industrial design programs are also carried out at the Ontario College of Art and at Humber College.

The industrial design consultants spoken with felt that Canada-U.S. free trade would not have a negative impact on their business, but they also saw the potential opportunities as limited. The perceptions underlying this judgement were that the types of firms which might utilize their services did not face significant barriers at present in the U.S. market and that under free trade U.S. subsidiaries would have even less opportunity to undertake autonomous product development requiring the services of industrial designers. However, to the extent that free trade with the U.S. increases access to large U.S. markets justifying product-specific investment in design and tooling, and to the extent that free trade increases the level of competition faced by Canadian manufacturers, forcing them to develop competitive advantages based on distinctive design, free trade may contribute to the demand for design services from industrial design consultants to a greater degree than would be implied by the tepid support provided by those interviewed.

The suggestion was made that the Ontario government could assist Ontario industrial design consultants through the use of its purchasing power to encourage innovative design.

The Olympia and York proposal to establish a design center in the former Toronto Stock Exchange building was considered to be a good idea. The comment was made that the centre should show international calibre design, including Canadian designed products only when they meet the international standard.

PART II: GRAPHIC DESIGN

Definition

Graphic design originated from graphic or commercial art and is sometimes called visual communication. Graphic design is the creative use of alphanumeric symbols and non-alphabetic images to clarify information and enhance communicaiton in a variety of media. The term covers typographic and type design, book, magazine, audio-visual and advertising design. The output of graphic design studios includes corporate logos and trademarks, annual reports, newsletters, brochures, catalogues, counter top posters, certificates and magazine layouts.

Industry Status and Outlook

The number of graphic design studios in Ontario is estimated to be 1,000, with Toronto accounting for as many as 500. Most of these studios employ fewer than five people, and in total are estimated to employ 3,000 to 5,000, including support staff. Firms employing 10 designers or more are considered large studios and the maximum employment by a single graphic design firm seems to be about 30 people. Ontario's leading graphic design studios include Gottschalk and Ash International, Taylor & Browning Design Associates, Burton Kramer Associates Ltd., Stewart and Morrison Ltd. and the Watt Group.

Graphic design studios are locally owned. Foreign ownership does not exist and it is rare for an office to be owned out-of-province.

Industry participants consider graphic design to be a growth industry. One explanation for this trend is that a generation has grown up with images, as a result of television and video. A more competitive marketplace as a result of recession or increased international trade only serves to expand the demand for graphic design as firms attempt to use the talents of graphic designers to create a competitive edge in the marketplace. The demand for services of graphic designers is expected to continue to grow faster than the economy as a whole.

Entry into and exit from the graphic design industry seems extensive. Entry is relatively easy, requiring an investment of only $20,000 to $30,000 in capital. Once an individual becomes known through working in an established studio, spinoff as an independent firm is feasible and common.

The customers of graphic design studios are corporate head offices in the private and public sectors. The client may be represented by the public affairs department of such corporations.

Status in External Markets

It is rare for graphic design studios to have offices in other provinces or outside the country. Work done for clients from other provinces is usually done in the graphic design studio's Toronto office. Within Canada, Toronto graphic design studios account for about 60 per cent of the activity of the industry. This is attributable to the concentration of corporate head offices in the Toronto area.

Exports account for a very small proportion of the revenues of graphic design studios, not more than 10 per cent. Even the larger, more export-oriented firms would earn no more than 10 or 20 per cent of revenues outside Canada. Canadian graphic design firms have the advantages in entering the U.S. market of low costs resulting from efficient production and the relatively low value of the Canadian dollar. However, the basic ingredient of graphic design is the talent of the designer, and Canada has no particular advantage here relative to the United States. Graphic design tends to piggyback on the expansion of multinational corporations, which bodes well for Canadians as companies such as Olympia and York and Cadillac Fairview expand in the United States.

Government Policies and Proposals

The president of the Toronto Chapter of the Society of Graphic Designers of Canada emphasized that growth in the industry has been inhibited by the lack of adequately trained young graphic designers. York University's four year program and programs at the Ontario College of Art and Sheridan are good. However, his overall view is that too many community colleges are offering inferior programs of inadequate duration (two years rather than four). A number of U.S. universities offer superior four year educational programs in graphic design.

Some administrative difficulties in applying Ontario's retail sales tax to the services provided by graphic design studios were noted. The main difficulty concerned the uncertainty involved in applying the tax, and the resulting potential for inequities between otherwise similar competitors.

Concern was expressed over the amount of protection provided to property rights in a logo designed by a graphic designer. It was stated that the protection provided by copyright is more precisely detailed and extensive in the U.S.

A scholarship program to help students to defray the costs of studying in Europe and the U.S. could be undertaken by Ontario. An industry participant thought this could be a helpful role for government.

It was argued that the Olympia and York initiative to establish a design center in the old Toronto Stock Exchange building could provide a tremendous boost for all the design disciplines in Ontario and Canada. It was argued that the downtown Toronto location is ideal, since it would provide an opportunity to display design to corporate decisionmakers. It was recommended that Ontario support this initiative in order to increase the visibility of Ontario design.

There may be some opportunity for Ontario to introduce an awards program for graphic design. With the demise of the Design Canada awards, the view was expressed that each of the design associations is left with the responsibility to develop its own award but has inadequate resources to do so.

PART III: INTERIOR DESIGN

Definition

Interior designers plan spaces. Planning spaces involves considering traffic patterns; taking into account mechanical needs such as lighting, heating, ventilation, plumbing and acoustics; selecting finishes, fittings and furniture for both looks and performance; and, in some cases, structural alterations. A definition of interior design is provided by The Canadian Encyclopedia as follows:[3]

> Interior Design is a process for solving the physical and aesthetic needs of people using interior spaces for living, working, personal care, worship or recreation. The interior designer deals with a variety of design problems in private residences, commercial businesses and corporations, and public and private institutions.
>
> The designer must identify and analyse the client's problems, creatively develop the best solution and supervise the installation of the project. The design solution will include such elements as furnishings, lighting, colour, interior architectural components, decorative accessories and art. These elements will be organized for the client according to function, architecture, climate and individual needs and preferences.
>
> Interior designers must be competent in design theory and aesthetics, history, anlaysis, space planning and programming, specifications and inspections, as well as related aspects of environmental design. Technical knowledge should include interior construction; building systems and related codes; equipment; business, graphic and written communication skills.

Interior design includes the following market segments:

- Corporate offices, the largest single market;
- Retail stores and shopping centers;
- Hospitality (restaurant and hotel facilities);
- Institutional (hospitals, nursing homes and schools); and
- Residential.

Industry Status and Outlook

The Ontario and Canadian industry associations representing interior designers are currently surveying the industry to determine basic data such as the number of firms and employees. In the meantime, one person guessed that there are approximately 1,000 interior design firms in Ontario. It is estimated that these firms employ in excess of 3,000 people. Perhaps 700 of these firms are single person operations, while the largest firms employ 20 to 70 persons. The leading interior design firms in Ontario include Rice Brydone Limited, Forrest-Bodrug Partners Inc., Marshall Cummings and Associates Ltd., and the International Design Group Inc. The first three of these firms specialize in the interior design of corporate offices; the International Design Group specializes in shopping centres.

There is essentially no foreign ownership in the interior design industry, firms being locally owned. The largest Ontario firms maintain a few branch offices in other provinces or countries. Branches are located in Calgary, Montreal, New York, and London.

No clear view of the recent growth experience of the industry or its future outlook was obtained. It is expected that demand for interior design services will grow with the economy. The entry and exit of firms into and from the interior design industry was described as being like any other business. It is a common pattern, however, for individuals to spin off from established firms to create their own firm.

About three quarters of the Ontario interior design industry is located in Toronto. The other major center within Ontario is Ottawa, serving the federal government among other clients.

Status in External Markets

About half of Canada's interior design industry is located in Ontario. About 35 to 40 per cent is located in Quebec, with the remainder spread among the other provinces. Ontario, and specifically Toronto, is therefore the center of interior design in Canada, and obtains the lion's share of the English-speaking market. Although a few of the largest firms maintain a couple of offices each outside of Toronto, most of the work is done at the Toronto office. Interior designers and clients both fly to the other's location, but it is often convenient for the client to come to Toronto in combination with a buying trip or financial negotiations.

No estimate was obtained of the percentage of interior design revenues earned from exports. A few of the larger firms have apparently done very well in international markets. International Design Group, which specializes in shopping centers, obtains 30 per cent of its business from the United States and another 30 per cent from overseas countries including England, the Middle East, and Peru. Canadian interior designers can present themselves to foreign clients as combining North American merchandising and retailing awareness with "mid Atlantic" sensibilities that differ from those of their U.S. competitors. Toronto's interior designers gain a competitive edge from the city's lifestyle, diversity of ethnic groups and vibrant downtown. The major disadvantage to be overcome by Ontario interior designers is distance from foreign clients.

Government Policies and Proposals

In 1984, Ontario passed the Association of Registered Interior Designers of Ontario Act. The Act granted to members of the Association of Registered Interior Designers of Ontario (ARIDO) the right to use the designation "registered interior designer", although the Act does not prevent any person who is not a member of the Association from practicing as an interior designer.

A serious dispute has arisen between interior designers and architects in Ontario over the right of interior designers to practice when their proposals affect the structure of a building. Following changes in the Architect's Act in 1984, municipal officials have in some cases interpreted the Ontario Building Code in such a way as to prevent interior designers from obtaining building permits necessary to undertake their work. From the perspective of Ontario's interior designers this is a critical issue involving their fundamental right to do business. Efforts by the Ministry of Housing to resolve this dispute are ongoing.

Ryerson and Humber College both offer good programs in interior design. Algonquin is also a good school. However, several community colleges offer two-year diploma courses in interior design which, according to industry sources, do not adequately prepare students for professional practice. ARIDO would prefer that diploma courses require a minimum of three years of study.

ARIDO has established the Foundation for Studies in Interior Design, which offers scholarships to promising interior design students. The scholarship program at present is small and underdeveloped. ARIDO envisages a scholarship program of 10 to 15 scholarships worth $5,000 - $6,000 each, of which two or three would be ARIDO scholarships. ARIDO is looking for sponsors from the corporate community for the other scholarships. This is an area in which the Ontario government could provide assistance.

The Ontario CAD/CAM Centre estimates that fewer than three per cent of interior design firms use computer-aided design (CAD) today. Close to 10 per cent of architects offices are estimated to be making use of CAD.[4] As might be expected with such a low percentage of current usage, there is debate about how useful CAD is for interior designers. However, the president of ARIDO says that "it's the future" and "we need the technology". CAD facilitates revision of designs, contributes to the accuracy of drawings and eases verification. Some systems allow an image on the screen to be moved, rotated and zoomed in on, and some can simulate a walk through a completed project, while maintaining cues that indicate visual depth. The Ontario CAD/CAM Centre in Cambridge is a help in diffusing this technology to interior design firms, but is viewed as being "too far away" from Toronto. There may be an opportunity to use ARIDO offices to demonstate small systems of interest to interior designers. CAD skills are not taught to interior designer students at Ryerson, but are at Humber College.

At least one interior design firm has been able to use Ontario and federal government offices abroad to expand exports. The firm's marketing efforts included distributing promotional materials to these offices, which assisted in attracting new business. The firm was greatly assisted by Ontario House in London, England, which made its offices available to the firm for meetings with initial clients.

ARIDO provides annual awards in 12 categories, and selects a "Designer of the Year". Nevertheless, the president of ARIDO indicated that instituting an Ontario award for design would be an excellent idea. He suggested that the Ontario award might involve other design disciplines as well, such as graphic and industrial design.

PART IV: FASHION DESIGN

Definition

Fashion design is the creation of styles for wearing apparel that will satisfy more than the physical needs of men, women and children for protection against the elements and for modesty.

Fashion design is closely linked to garment manufacturing, wholesaling and retailing. A designer may manufacture and/or distribute his or her creations. Most established designers are "associated" with a particular manufacturer. While fashion design is a service industry, these close links with garment manufacturing raise questions about the appropriateness of studying the industry except in the context of a review of the entire garment industry.

Industry Status and Outlook

It is not known how many fashion designers there are in Ontario. Since someone graduating from a community college program producing a single garment can call themselves a designer, it is difficult to meaningly define the size of the industry. Estimating the number of fashion design service sector firms is also made difficult by the close linkages which established designers have with manufacturing companies. The Toronto Ontario Designers Association (TOD), established in 1979, includes as members fashion designers who own their own businesses and those who are employed by garment manufacturers. TOD members are established fashion designers who have sold for at least five years. There are 20 members of TOD and an additional 20 fashion designers in Toronto who qualify for membership but have not joined in the organization. The TOD members, including their manufacturing associates, employed 600 people directly in 1984. The wholesale receipts of products designed by TOD members exceeded $50 million.[5]

Fashion design houses are locally owned. Foreign ownership is minimal. The leading Toronto fashion designers are Alfred Sung and Wayne Clark. Other prominent fashion designers include Marilyn Brooks, Linda Lundstrom and Edith Strauss.

Statistics on the recent performance of the fashion design industry in Ontario are not available, however the number of designers in Toronto has increased. Those involved with the industry seemed reasonably positive about the near term outlook. The federal government anticipates that under free trade with the United States, fashion designers would do relatively well. In part, this assessment may reflect the anticipated removal of significant tariffs on garments that are now imposed by the United States.

Turnover among firms in the fashion design industry is extensive. This pattern follows from the ease of entry into the industry.

Most fashion designers are located in Toronto, where buyers and suppliers also congregate. Some fashion designers are located in Ottawa.

Industry Status in External Markets

Montreal and Toronto each have about the same number of fashion designers, and together these cities dominate the Canadian industry. Toronto's rough equality with Montreal in fashion design reflects Toronto's more rapid recent growth. Toronto has an advantage in the U.S. market over Montreal in that there is no language barrier.

Data on the proportion of revenues of fashion designers earned from exports are not available. Only six per cent of Canada's clothing shipments are exported, but fashion garments presumably are exported to a greater degree. A representative of TOD suggested that perhaps one-third of member designs are exported. These exports would take the form of finished goods, not income from the sale of design rights. The largest Canadian designers have opened offices in the United States, but the usual pattern is for a Toronto designer to use an agent and shows in the U.S. to market his or her products.

Canadian fashion designers have the advantage in the U.S. market of a relatively cheap Canadian dollar at the same time as European currencies are strong in comparison to the U.S. dollar. Canadian goods also have the advantage of a reputation for quality. Canadian fashion designers are used to designing small quantities for diverse markets and this expertise serves them well in entering the U.S. The disadvantages faced by Canadian fashion designers include a lack of knowledge of exporting procedures, including difficulties such as simply keeping up with tariff changes.

Government Policies and Proposals

In 1986, the Festival of Canadian Fashion held its second annual show at the Metro Toronto Convention Centre. The show attracted 65,000 consumers and buyers to the booths of designers and retail stores. The Festival of Canadian Fashion has provided a big boost in profile to the Ontario fashion design industry.

The City of Toronto, through its Fashion Design Liaison Committee, has developed a number of proposals to strengthen the fashion design industry. One proposal is to establish a fashion incubator. The concept involved is that new designers/manufacturers would have a better chance of becoming successful if they could draw on business and technical assistance during the first two or three years of their business life. The fashion incubator would provide such assistance to twelve to fifteen designer/manufacturers, who would be provided with studio space and access to shared manufacturing equipment and shared reception and showroom space. The City of Toronto has also proposed that "a fashion industry resource centre" be associated with the fashion incubator. The resource center would serve as an information center for the Toronto fashion design industry. It would list upcoming fashion events. Referrals to supplers and sales representatives would be possible. A videotape library of fashion creations could be stored, as would an historical collection of garments.

The TOD representative suggested that Ontario, perhaps in conjunction with TOD, could produce a regular publication to promote Toronto fashion designers. These publications could be distributed through Ontario export offices. The publication could be revised on a quarterly or bi-annual basis.

The Ontario government used to present six Edee Awards per year for fashion. The Edee Awards for fashion were privatized and subsequently combined with awards for furniture design. As a result there is now no fashion industry award by the Ontario government. As part of its initiatives, the City of Toronto has established the City of Toronto Award for Excellence in Fashion Design; there are two categories, one for established designers and one for young designers in their final year of fashion design from any of the recognized schools of design in Metro Toronto.

About 200 students per year graduate from fashion design programs. The leading fashion design schools are Ryerson, Sheridan, George Brown, Humber College and the Fashion Institute of Canada (a private vocational school).

ENDNOTES

1. Association of Canadian Industrial Designers Ontario, information pamphlet.
2. Government of Canada, Consumer and Corporate Affairs, Intellectual Property Directorate.
3. George R. Fuller, "Interior Design" in The Canadian Encyclopedia (Hurtig Publishers, Edmonton, 1985), page 891.
4. Julian Zuckerbrot, "CAD/CAM: Designers and Computers ... What is their Future Together?" in Canadian Interiors, April 1986, page 88.
5. "The Toronto Ontario Designers Association" in Canada Commerce, September/October, 1985.

EDUCATION

DEFINITION

Statistics Canada classifies Education and Related Services as a major group within the Community, Business and Personal Service Industries division. Education and Related Services includes the following industries:

- Kindergartens and Nursery Schools;
- Elementary and Secondary Schools;
- Schools of Art and the Performing Arts;
- Vocational Centers, Trade Schools and Business Colleges (i.e. private vocational schools);
- Post-secondary Non-University Educational Institutions (i.e. community colleges);
- Universities and Colleges;
- Libraries, Museums and other Repositories; and
- Education and Related Services not elsewhere specified.

This report is somewhat narrower in scope than "Education and Related Services" as defined by Statistics Canada, and focusses on elementary and secondary schools, community colleges, universities and private vocational schools. The services provided by educational institutions include education, training and research. The emphasis in this report will be on the education sector's primary role, namely the provision of education.

STATUS AND OUTLOOK

A statistical overview of the education sector in Ontario is provided in Table 1, below. In 1983-84, more than 117,000 teachers taught in more than 5,000 educational institutions. Enrolment in these institutions exceeded two million students and total expenditures on education in Ontario were in excess of $10 billion.[1] By any of these yardsticks, the elementary and secondary school segment of the Ontario education sector is larger than the community college and university segments combined.

ONTARIO EDUCATION SECTOR, 1983-84 Table 1
(number)

	Institutions	Full-time Teachers	Full-time Enrolment	Expenditures ($ Millions)
Elementary-Secondary	5,412	96,192	1,865,658	6,891.0
Community College	31	7,993	95,063	1,228.1
University	21	13,282	183,119	2,174.9
Total	5,464	117,467	2,143,840	10,294.0

Note: Community college teachers include trade teachers in public trade schools and community colleges. Community college expenditures include expenditures on courses in community colleges which do not require the completion of a secondary school diploma, such as industrial training, apprenticeship and registered nursing assistant programs.

Source: Statistics Canada (81-229)

The employment significance of the education sector is greater than is implied by Table 1. In addition to full-time teachers, the sector employs part-time teachers and support staff. Ontario employment in 1978 and 1983 for the Education and Related Services major group is shown in Appendix Table A.1., based on special data obtained from Statistics Canada.[2] In 1983, 266,000 persons were employed in this broadly-defined education sector, 7.9% of total Ontario employment. From 1978 to 1983, employment in Education and Related Services increased by 26,900 or 11.3%. This rate of increase was less than that shown by Health and Welfare Services (23.0%) or Services to Business Management (20.3%) and less than the percentage increase achieved by Community, Business and Personal Service Industries as a whole (16.9%), but still well above the rate of increase in total employment in all industries (excluding Public Administration and Defence) of 5.2%.

The Education and Related Services major group accounted for 6.1 per cent of Ontario's Gross Domestic Product (measured at factor cost) in 1983. This somewhat smaller share of output than of employment reflects the labour-intensive nature of education. Elementary and secondary schools alone accounted for 4.3 per cent of Ontario GDP and the universities for 1.1. per cent.

The education sector is almost entirely Canadian owned and controlled.

Elementary and Secondary Schools

More than 95% of students in elementary and secondary schools in Ontario are enrolled in publicly supported institutions.[3] The remainder, less than 5% of total enrolment, attend private elementary and secondary schools. Of the students enrolled in publicly supported elementary and secondary schools, more than 99% attend schools run by local school boards. The remainder attend federal schools administered directly by the federal government, such as Indian schools operated by the Department of Indian and Northern Affairs, and special institutions such as those for the blind and deaf operated directly by the provincial government. The elementary schools run by school boards include both public and separate schools. This section first discusses publicly supported elementary and secondary schools run by school boards and then concludes with a description of private schools in Ontario.

Publicly supported elementary school enrolment (including Grade 9 and 10 separate schools students) increased from 864,000 in 1955 to a peak of 1,465,000 in 1970.[4] Thereafter, enrolment declined steadily through the 1970s and early 1980s and is expected to bottom out at 1,194,000 in 1986. The Ontario Ministry of Education expects enrolment to increase over the next decade, reaching 1,244,000 in 1994.[5] This enrolment pattern is the result of demographic changes experienced or anticipated. The 1970 peak in enrolment reflected the "baby boom" of a decade earlier, and the moderate rise in enrolments anticipated after 1986 represents the so-called "baby boom echo" as the children of the baby boomers reach school age.

The number of full-time elementary school teachers increased very rapidly from 27,500 in 1955 to a peak of 59,300 in 1970, in parallel with enrolments. By more than doubling the number of teachers, Ontario elementary school boards were able both to accommodate the baby boom increases in enrolment and to reduce pupil-teacher ratios (that is, the number of pupils per teacher) from 31.4

in 1955 to 24.7 in 1970. After 1970, the number of full-time elementary school teachers employed was reduced from 59,300 to an anticipated low of 52,600 in 1986, after which the Ontario Ministry of Education anticipates an increase to 54,800 in 1994.[6] Declining enrolments during the 1970s and the first half of 1980s permitted elementary school boards to reduce the number of teachers employed, but school boards also used these circumstances as an opportunity to further reduce pupil-teacher ratios from 24.7 in 1970 to 22.7 in 1984.

During the last 30 years, the number of elementary schools has been steadily reduced during periods of both expanding and declining enrolment. In 1955 there were 7,000 elementary schools in Ontario. By 1970, this number had been reduced to 4,200 and by 1984 to 3,800. As a result, the size of the average elementary school increased from 123 pupils in 1955 to 316 in 1984.

Publicly supported secondary school enrolment increased from 174,600 in 1955 to a peak of 613,800 in 1977. Enrolment thereafter declined, and is anticipated by the Ministry of Education to continue to decline until 1993 when it will bottom out at 496,800, before increasing to 498,600 in 1994.[7] The 1977 and 1993 turning points lag the peak and trough of elementary school enrolment by seven years, and reflect the same baby boom demographics. The number of full-time secondary school teachers moved in parallel with enrolment from 7,400 in 1955 to a peak of 35,500 in 1977. Thereafter, the number of full-time teachers employed declined and is anticipated by the Ministry of Education to continue to decline to 29,600 in 1993 before rising slightly to 29,700 in 1994.[8] While the effect of demography on enrolments has been a major determinant of the employment of teachers, high school boards have also achieved a reduction in pupil-teacher ratios throughout this period, from 23.7 in 1955 to 17.3 in 1977 and 16.8 in 1984.

The number of secondary schools increased steadily during most of the past 30 years. In 1955, there were 375 secondary schools. This number increased to a peak of 643 schools in 1981, before declining to 631 in 1984.

In 1984, 87,126 students were enrolled in 535 private elementary and secondary schools in Ontario.[9] During the same year, 1,750,726 students were enrolled in publicly supported elementary and secondary schools run by school boards. Excluding federal schools and provincial schools for the handicapped, therefore, private schools accounted for 4.7% of total elementary and secondary school enrolment. Although still relatively small, this percentage has grown from 2.3% of total enrolment in 1973, when private schools were attended by 47,500 students.

About 20% of the private schools, accounting for about 40% of private school enrolment, are Roman Catholic private schools, which are in almost all cases secondary schools. Given the Ontario government's decision to extend public funding to Roman Catholic secondary schools, it is likely that the great majority of these schools will become part of the publicly supported Roman Catholic separate school system. Excluding the Roman Catholic private secondary schools, there are 447 private elementary and secondary schools in Ontario, enrolling 53,417 students. Of these 447 private schools, approximately two-thirds are religiously-defined private schools, with the balance non-sectarian. Among these non-sectarian schools are 17 private schools that provide Ontario secondary education for about 2,200 visa students.

Community Colleges

Ontario has 22 Colleges of Applied Arts and Technology (CAATs) on 90 campuses. For statistical purposes, the CAATs and a number of similar institutions are sometimes grouped together as community colleges. Table 1 above shows Ontario with 31 community colleges, a figure which in addition to the CAATs includes several colleges of agricultural technology, the Ontario College of Art, the Niagara Parks Commission School of Horticulture and the Institute of Medical Technology. The number of community colleges and related institutions has remained stable in recent years.

In 1983-84, Ontario community colleges and related institutions employed 5,900 teaching staff and academic administrators on post-secondary level courses and another 2,100 on trades level programs.[10] In total, 8,000 teaching staff and academic administrators were employed. In 1982, full-time enrolment in post-secondary programs at the CAATs was 90,700.[11] However, as suggested by the staff figures, CAATs also provide non post-secondary courses. In 1982, full-time enrolment in non post-secondary adult training and apprenticeship courses at the CAATs was 23,900. Total full-time enrolment at the CAATs was therefore 114,600. Furthermore, in that year there were 227,000 course registrations by part-time students in one term for post-secondary and, in particular, non post-secondary courses. In short, while full-time post-secondary enrolment at the CAATs was 90,700, the number of CAATs students was more on the order of 300,000 in 1982.

The growth of the CAATs can be seen by examining their core student population, full-time post-secondary enrolment. This grew from 35,100 in 1971 to 95,800 in 1984. Between 1980 and 1984 alone, enrolment increased by 26.5%. The same demographic developments which resulted in an elementary school enrolment peak in 1970 and a seondary school enrolment peak in 1977 would create a peak in community college enrolment in the early 1980s. Relative to the situation in elementary and secondary schooling, however, the influence of demography on community college enrolment is moderated by other factors which influence the participation rate of specific age groups and the potential of community colleges to attract students of varying ages. A recent enrolment projection prepared by the Ministry of Colleges and Universities forecast an enrolment peak in 1984 with enrolment relatively stable to 1990 and thereafter dropping to 90,800 in 1994.[12]

No community college has full-time post-secondary enrolment of as much as 10 per cent of total system enrolment. In 1983, there were 95,251 students enrolled in the CAATs. The three largest colleges were Seneca, with 9,080 students, Humber, with 8,881 students, and Algonquin with 8,524 students.

The CAATs are geographically located throughout the province. In particular, northern Ontario is served by the following institutions:

- Cambrian in Sudbury;
- Canadore in North Bay;
- Confederation in Thunder Bay;
- Northern in Haileybury, Kapuskasing, Kirkland Lake, Moosonee and Timmins; and
- Sault in Sault Ste. Marie.

Universities

There are 15 universities in Ontario, according to the Ministry of Colleges and Universities: Brock, Carleton, Guelph, Lakehead, Laurentian, McMaster, Ottawa, Queen's, Toronto, Trent, Waterloo, Western, Wilfrid Laurier, Windsor and York. For some purposes, a limited number of other institutions are grouped together with the universities; thus Table 1, on page 188, shows Ontario as having 21 universities. These other institutions include Ryerson, The Ontario College of Art, The Ontario Bible College, The Royal Military College of Canada and College Dominicain de Philosophie et de Theologie. The number of Ontario universities and similar institutions has remained stable for more than a decade.

The number of full-time teachers employed by Ontario universities increased from 10,500 in 1971 to 13,100 in 1982.[13] However, this substantially understates the employment impact of Ontario universities since, as shown in Appendix Table A1 on page 204, full-time equivalent employment in 1983 was 59,200. This figure includes part-time employment and support staff. The appendix table also shows that university employment increased by 12.5 per cent from 1978 to 1983, about the same rate as for the Education and Related Services major group as a whole.

In 1984, Ontario universities enrolled 164,600 full-time undergraduates and 20,900 full-time graduate students, for a total of 185,400 full-time students. During the same year, there were 83,600 undergraduate part-time students and 12,300 part-time graduate enrolments, for a total of 95,800 part-time students. Taking full and part-time students together, Ontario universities served 281,200 students.

In the past three decades, university enrolments have undergone a tremendous increase in Ontario. Full-time undergraduate and graduate enrolments increased at an astonishing rate from 36,000 in 1961 to 134,400 in 1971, and continued to increase in the 1970s to 167,900 in 1981 before reaching 185,400 in 1984. Part-time undergraduate and graduate enrolments increased from 57,500 in 1971 to 91,200 in 1981 and 95,800 in 1984. However, estimates from the Ministry of Colleges and Universities indicate that enrolments probably peaked in 1984 and registered small declines in 1985 and 1986, whether measured on a full-time or full-time equivalent basis.

The same baby boom which created enrolment peaks in elementary schools in 1970 and secondary schools in 1977 has contributed substantially to a university enrolment peak in 1984, the year in which the size of Ontario's 18 to 24 year old age group is estimated to have reached its maximum. Other factors contributing to the expansion of university enrolment during the past several decades include the major increase in the number of university institutions to increase accessibility during the 1960s, the steady increase in the participation rates of women throughout the period, and the relative lack of available employment alternatives during the early 1980s. For the future, the downward trend in the size of the traditional 18 to 24 year old age group suggests that university enrolments will decline.

Some projections anticipate that the compression of Ontario's secondary school system from five years to four for honours graduation diplomas will boost university enrolment as a result of the accelerated entry of younger students. This "double cohort" effect could increase university enrolments to a 1990-91 peak in excess of 1984 levels. However, it now appears that perhaps only about 15 per cent of secondary students will opt to compress five years of schooling into four, so projected enrolments more closely follow the downward sloping paths which demographic changes would predict. Regardless of the effect of secondary school system changes, demographic forces are expected to bring about a 25,700 full-time equivalent or 13 per cent reduction in university enrolments from 1984 to a trough in 1998.[14]

No single institution dominates Ontario's university system, although enrolment is more concentrated than is the case for the community colleges. In 1983, University of Toronto accounted for 20 per cent of full-time undergraduate enrolment by Ontario's 15 universities, Western 12 per cent, Waterloo and York 10 per cent each, and Ottawa 8 per cent. York was the leading university for part-time undergraduates, enrolling 19 per cent, compared to University of Toronto's 17 per cent. Full-time graduate enrolment is somewhat more concentrated in Toronto, which accounted for 31 per cent of students in 1983.

While total enrolments are not concentrated in particular institutions, more specialized disciplines are often taught at only a limited number of institutions. For example, 100 per cent of full-time undergraduate enrolment in agriculture is located at Guelph. Architecture has been split between three schools: Carleton, University of Toronto and Waterloo. Two-thirds of dentistry is at University of Toronto, with the remaining third at Western. Forestry is split between Lakehead and University of Toronto. Journalism is taught at Carleton and Ryerson, with the Carleton school by far the largest. In examining universities in the context of calls for increased differentiation and specialization, the Bovey Commission concluded that the universities were to a considerable degree already differentiated in respect of their roles and missions, both in undergraduate, professional and graduate education and in research.[15]

With the expansion of Ontario's university system in the 1960s, regional accessibility was increased. In particular, northern Ontario is served by Lakehead in Thunder Bay and Laurentian in Sudbury.

Private Vocational Schools

Private vocational schools are privately supported schools offering instruction in the skills and knowledge requisite for employment in a vocation. Courses are provided in such skills and vocations as the following: accounting, aesthetician, bookkeeping, business administration and management, computer programmer, fashion modelling, secretary (including legal and medical), theatrical make-up for stage and screen, travel counsellor, typing and word processing.

No statistics on enrolment in private vocational schools are available. Provincial registration of private vocational schools is required, however, so it is known that the number of schools has increased from 75 in 1975 (with no branch locations) to 172 schools operated at 216 locations (including branches) in 1986. These statistics suggest rapid growth in demand for the practical, career-oriented courses offered by private vocational schools.

Appendix Table A1 includes statistics on SIC 804, Vocational Centres, Trade Schools and Business Colleges. This category roughly corresponds to registered private vocational schools and shows considerable growth in full-time equivalent employment from 1,400 in 1978 to 1,900 in 1983, an increase of 36.8 per cent. This 1983 employment level is less than 10 per cent of that for SIC 805, Post-secondary Non-university Educational Institutions (community colleges), but has been growing much more rapidly.

STATUS IN OUTSIDE MARKETS

The performance of Ontario's educational sector in jurisdictions outside of Ontario may be assessed in two ways. First, the enrolment of students from other countries and other provinces in Ontario institutions and the enrolment of Ontario's residents in the institutions of other jurisdictions can be reviewed. Second, the involvement of Ontario institutions in export activities can be examined.

Foreign Students

Enrolment in Ontario's community colleges is primarily from Ontario. In 1984, the CAATs had 95,780 students, of whom 96 per cent were from Ontario, two per cent from the rest of Canada and two per cent from other countries.

The origin of university students is more diverse. In 1983, 86 per cent of Ontario's undergraduate full-time enrolment was from Ontario, seven per cent from the rest of Canada and seven per cent from other countries. At the graduate level, 70 per cent of Ontario university full-time enrolment was from Ontario, 14 per cent from the rest of Canada and 16 per cent from other countries.[16]

In a recent years, the number of foreign students studying at Ontario universities has decreased noticeably. According to immigration statistics, 15,838 foreign students were attending Ontario universities at the end of 1983, but only 12,232 at the end of 1985 -- a drop of 23 per cent.[17] This decline has been attributed to the imposition of higher fees on foreign students.

The status of Ontario universities within Canada is illustrated by examining the "trade in students" between Ontario and the rest of Canada. In 1983, 13,600 students from other provinces studied in Ontario universities, while only 6,800 students from Ontario studied in universities elsewhere in Canada. Ontario universities, in particular the University of Toronto, serve as national institutions for undergraduate and graduate students from other provinces.

Information on Ontario students studying abroad is not available, but there is a limited amount of data on students from Canada studying in other countries. In 1979, approximately 18,100 Canadians attended universities abroad, with about 15,100 enrolled in U.S. institutions. In 1980, 24,300 foreign students were studying in Canada. This suggests a positive balance in "trade in students" overall. However, since less than 10 per cent of foreign students studying in Canada are from the U.S., Canada's bilateral balance of trade in university students with the United States is negative. Fifty-four per cent of Canada's and 62 per cent of Ontario's foreign students are citizens of Asian countries, in particular Hong Kong and Malaysia.

Exports by Ontario CAATs and Universities

Ontario's CAATs and universities, and related private sector firms, export a diverse range of services based on the academic, training, and administrative expertise of Ontario institutions. In particular for universities there is no central monitoring of foreign involvements, so determining the size and scope of these activities is difficult. Some indication of their nature can be gleaned from an examination of the activities of the Ontario International Corporation and of the Canadian International Development Agency's Institutional Cooperation program.

The Ontario International Corporation was set up in 1980 to help the private and public sectors sell Ontario's goods and services. One division of OIC is devoted to marketing Ontario's educational and training expertise to nations developing their educational systems. The OIC helps Ontario-based companies integrate a training component into their capital projects, identifies new export opportunities for Ontario's education consultants and institutions, and helps Ontario's educational institutions arrange specialized training for students from other countries and support international development projects. To aid the market development efforts of Ontario exporters, the OIC can draw on the Export Success Fund and a small Client Market Development Travel Program. The fiscal 1985-86 budget of the Educational Services Division of OIC was approximately $700,000, including the wages and salaries for a staff of about ten.

The projects in which the OIC has been associated have involved community colleges, such as St. Lawrence, Humber, Mohawk, George Brown and Confederation and Ryerson. The St. Lawrence College project, for example, involved the training of air traffic controllers from Saudi Arabia. A Ryerson project involved curriculum consulting for a new polytechnic in Bahrain.

CIDA's Institutional Cooperation program encourages joint ventures between Canadian institutions and their counterparts in the developing world to address particular problem areas. For example, the health science faculty of the University of Toronto is assisting the Sichuan Medical College in China in upgrading the training of staff and students through a five-year exchange program. McMaster and China's Beijing University have an exchange program in iron and steel research. The Association of Canadian Community Colleges is implementing a business management education program in Szechuan province in China. Eight management centres will be established in the province, four run by China and one each run by the United States, West Germany, Japan and Canada. The Ontario institutions involved in the Institutional Cooperation program in 1983-84 included Carleton, McMaster, Mohawk, Ontario Institute for Studies in Education, Queen's, Ryerson, Trent, Guelph, Ottawa, Toronto, Waterloo, Western and York universities, the Hospital for Sick Children and the Toronto General Hospital, and Mohawk, St. Clair and St. Lawrence community colleges.

GOVERNMENT ASSISTANCE AND POLICY

Funding of Education

As shown in Table 1, on page 194, total expenditures by governments, individuals and businesses on education in Ontario in 1983-84 were in excess of $10 billion. Grants provided by the Province of Ontario in support of education totalled somewhat less than half this amount. The extent of provincial support can be indicated as follows:

- In calendar year 1984, the Province provided elementary and secondary school boards with grants of $3.0 billion, 47.6 per cent of their total expenditures of $6.3 billion.[18] Most of the rest of school board funding came from local taxes.
- In fiscal year 1984-85, the Province provided $560 million in operating and capital grants in support of the CAATs.[19]
- In fiscal year 1984-85, the Province provided universities, Ryerson, Ontario College of Art and related institutions operating and capital grants of $1.2 billion.[20]

The Government has amended the Education Act to extend full public funding to Roman Catholic secondary programs. This initiative will necessitate an increase in Provincial grants in support of secondary education.

University Funding

A consensus has emerged that Ontario universities have experienced "a decade of underfunding." This view is shared by the Government, the universities, students and the media.[21]

An historical perspective on university funding can be gained by examining the value of the Ontario operating grants provided to universities per "basic income unit" or BIU, the unit used to measure university enrolment for funding purposes. From 1967 to 1977 the per BIU value of the operating grant increased from $1,320 to $2,529 (on an adjusted basis, to maintain consistency), fully keeping pace with the rise in the consumer price index over this period. From 1977 to 1985, however, the BIU value increased from $2,529 to only $4,270, failing to keep pace with inflation. In inflation-adjusted terms, the BIU value was 102 per cent of its 1967 value in 1977, but only 92 per cent of its 1967 value in 1985. In examining these issues, the Council of Ontario Universities has calculated that from 1973 to 1983 the percentage increase in inflation-adjusted expenditures per client served in elementary and secondary schools has been 138 per cent, in hospitals 145 per cent, in CAATs 79 per cent and in universities 82 per cent.[22] These figures suggest a decade of underfunding, although it should be noted that it is probably appropriate that per capita inflation-adjusted expenditures were constrained during this period since it coincided with the run-up to the peak in university enrolments as the baby boom reached university age. Full maintenance of inflation-adjusted per student support would have created an overbuilt university system in the face of prospective enrolment declines. While constraint may have been in order, the widely shared view is that excessive restraint was applied.

Another perspective on the funding of Ontario universities can be obtained by comparing Ontario's policies with those of other provinces. From 1974 to 1984 Ontario increased its total operating grants to univeristies by 142 per cent, the smallest percentage increase of any province.[23] During the same period, the other nine provinces increased their total operating grants by 194 per cent. The latest report of the Tripartite Committee on Interprovincial Comparisons shows that from 1974 to 1983 Ontario's operating grants per student declined from 94 per cent to 89 per cent of the Canadian average, although operating grants plus tuition fees per student slipped only from 98 per cent to 97 per cent.[24] This heavier and increasing reliance on tuition fees was not matched by similar increases in student aid relative to the other provinces. In 1974, Ontario's operating grants plus student aid per capita was 99 per cent of the Canadian average, but by 1983 this had slipped to 86 per cent.[25]

Tuition fees accounted for 18.2 per cent of the general operating income of universities in Ontario in 1983-84, a higher percentage than in any other province except Prince Edward Island (where the figure was 18.5 per cent).[26] The average reliance on tuition fees in the other nine provinces is 10.8 per cent. Nonetheless, since 1967 Ontario tuition fees have increased at a rate far below inflation. If tuition fees had been fully increased along with inflation, the fees in arts and science in 1985 would have been $1,664 instead of $1,105. Tuition fees represent only a small portion of the total costs of post-secondary education paid by a student, when one considers living costs and the cost of forgone income. Countries that have free tuition, such as Sweden, have not achieved a higher participation rate among low-income groups than has Canada. Other social and economic factors, operating at a much earlier stage in a person's life, appear to be far more significant in influencing whether or not an individual attends a post-secondary institution. Ontario tuition fees remain well below those of well-known U.S. institutions.

The Ontario Student Assistance Program (OSAP) provides grants and low-interest guaranteed loans to Ontario students studying at universities, community colleges and selected private vocational schools. The province pays for over 60 per cent of this program, with the remainder provided by the federal government.[27] Total Provincial expenditure on OSAP increased from $29 million in 1971 to $120 million in 1983. In 1983, 35 per cent of the total full-time enrolment in Ontario universities and colleges received assistance from OSAP. Three quarters of grant awards by OSAP are to dependent single students. From 1979 to 1983 the average grant award to dependent single students actually decreased, despite inflation, from $1,229 to $1,086. In 1983, 77 per cent of all students receiving grants came from families with gross incomes below the Ontario median.

A final perspective on the funding of Ontario universities is provided by the 1984-85 annual report of the Ontario Council on University Affairs, the body appointed by the Government to advise it on these matters. This report, the most recent available, concludes as follows:

> Coinciding with the reductions in real operating expenditures mentioned above has been an increase in student/faculty ratios of over 10 per cent. When measured in constant dollars, there have also been significant reductions in student-related expenditures per student; i.e., library, academic, computing, student services, and instruction and non-sponsored research. In addition, the physical plant continues to deteriorate as: demands placed on it increased to record levels; support staff levels decline as demands for their services increase; equipment renewals are delayed as the need for up-to-date equipment for teaching and research becomes more critical; and the ability to cover overhead costs of sponsored research diminishes, placing future research projects in jeopardy. Council, therefore, concludes that there has been a reduction in the quality of the "inputs" into a university education in recent years. The impact of this on the "outputs" remains uncertain.

These problems must be addressed by both government and the universities with an eye to reversing the trend and identifying those areas of university activities that must be given priority in the future.[28]

Recent and New Policy Initiatives

The 1985 and 1986 Ontario Budgets confirmed or announced the following initiatives:

- The General Legislative Grants to school boards was increased by 5.4 per cent in 1986. A $25 million education capital fund was provided in to supplement the $67 million basic allocation for capital purposes.

- The basic operating grant for universities and for colleges of applied arts and technology was increased by 4 per cent for 1986-87.

- A University Excellence Fund was created to provide $50 million in special grants to the universities and related institutions in 1986-87. This fund was to provide $10 million to assist in the hiring of young scholars and teachers, $15 million towards the costs of research equipment, specialized experimental facilities, and highly skilled technical and professional research support staff and $25 million to assist universities in expanding their library collections and to assist in the purchase of state-of-the-art scientific, laboratory, computing, library and other instructional equipment.

- A College Excellence Fund was established to provide $30 million in special grants to the colleges in 1986-87. This was to enable colleges to purchase state-of-the-art teaching equipment and to allow them to undertake much needed capital repairs.

- Funding was promised to the University of Waterloo to complete construction of its new computer research centre.

- A $1 billion technology fund for the next decade was established. Universities will be among the major beneficiaries of the technology fund; the fiscal plan for 1986-87 provided for $15 million to revitalize and strengthen Ontario's applied research capacity.

- While tuition fees were held to an increase of 4 per cent, funding for the Ontario Students Assistance Program was increased by 8 per cent, to $145 million, in 1986-87. According to the Minister of Colleges and Universities, the priority was to use these funds to increase the grants for students from low-income families.[28] The Minister has stated that additional action will be required to improve the level of OSAP assistance.

The Speech from the Throne, delivered April 22nd, 1986, indicated the intended directions of the Government in ensuring a world class and relevant education system in Ontario. At the elementary and secondary level, the following initiatives were proposed:

- T.V. Ontario will be given funding to produce educational programming in the science field.

- Students and teachers will be helped to become more familiar with computer technology.

- Women will be encouraged to explore careers related to science, mathematics and technology.

- Courses in entrepreneurship will be introduced.

- Greater emphasis will be placed on cooperative education programs.

- Schools will be assisted in providing computerized job search programs for students.

- A high school of science and technology will be established in northern Ontario.

- New technologies will be used to deliver distance education to remote communities.

With respect to post-secondary institutions, the Government indicated that the approach used in the College and University Excellence Funds will be extended. As has been possible with these discretionary funds, the Government indicated that it intends to undertake intentional targeting of funds to particular institutions, rather than providing incremental funding on a formula basis to all comers. The relevant section of the Throne Speech states the following:

> My government is committed to enabling Ontario universities and colleges to establish their essential place on the path to excellence in these and other targetted areas. This will involve determining the areas of specialty universities can master, and the avoidance of unnecessary program duplication.
>
> Once decisions about the areas of concentration have been made in consultation with the post-secondary institutions, my government will support excellence through appropriate funding and measures directed towards institutional accountability.
>
> In addition to maintaining the ability to provide quality in the core programs of liberal arts and science, my government will encourage the development of centres of excellence in Ontario's post-secondary institutions.

APPENDIX

EMPLOYMENT IN EDUCATION AND RELATED SERVICES: ONTARIO, 1978-1983

TABLE A1

SIC	Industry	1978	1983	1978-83 Change	
801	Kindergartens and Nursery Schools	1973	2,332	359	18.2
802	Elementary and Secondary Schools	152,073	167,778	15,706	10.3
803	Schools of Art and the Performing Arts	1,132	1,126	-6	-0.5
804	Vocational Centers, Trade Schools & Business Colleges	1,404	1,921	517	36.8
805	Post-Secondary Non-University Educational Institutions	21,939	24,452	2,512	11.4
806	Universities and Colleges	52,589	59,153	6,564	12.5
807	Libraries, Museums and Other Repositories	7,320	7,903	583	8.0
808	Education and Related Services, not elsewhere specified	914	1,609	694	75.9
Total, Education and Related Services		239,344	266,274	26,930	11.3

Note: Employment shown on a full-year equivalent basis. Numbers may not add due to rounding.

Source: Statistics Canada, special data run.

ENDNOTES

1. Throughout this profile of the education sector, figures are presented rounded to the nearest hundred or thousand, except where this would be misleading or suppress useful information.

2. Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

3. Ontario Ministry of Treasury and Economics, Ontario Statistics 1984, Chapter 31, Education.

4. Ontario Ministry of Education, Education Statistics, 1984.

5. Commission on the Financing of Elementary and Secondary Education in Ontario, Chairman: H. Ian Macdonald, Report, December 1985, page 107.

6. Ibid., p. 108.

7. Ibid., p. 107.

8. Ibid., p. 108.

9. The Commission on Private Schools in Ontario, Commissioner: Bernard J. Shapiro, Report, page 5.

10. Statistics Canada, Catalogue 81-254, Table 3.

11. Ontario Ministry of Colleges and Universities, Statistical Summary, 1982-83, Table 3D.

12. Instructional Assignment Review Committee, Chairman: Michael L. Skolnik, Survival or Excellence? A Study of Instructional Assignment in Ontario Colleges of Applied Arts and Technology, July 1985, Appendix VI, Table 7.

13. Ontario Treasury and Economics, Ontario Statistics 1984, Chapter 31, Education.

14. Council of Ontario Universities, Continuity and Renewal: The Demands of Excellence, 1984, page C14.

15. The Commission on the Future Development of the Universities of Ontario, Chairman: Edmund C. Bovey, Ontario Universities: Options and Futures, December 1984, page 13.

16. Statistics Canada, Catalogue 81-204, Table 12.

17. Canadian Bureau for International Education (Ottawa), based on data from Employment and Immigration Canada.

18. Ontario Ministry of Education, Education Statistics Ontario, 1984, page 169.

19. Ontario Ministry of Colleges and Universities, Statistical Summary, 1982-83, Tables 5A and 5F. Updated for 1984-85 by the Ministry of Education, Financial Services Branch.

20. Ibid.

21. See, for example, the Estimates Speech of the Hon. Gregory Sorbara, Minister of Colleges and Universities, given to the Standing Committee on General Government of the Legislative Assembly of Ontario on January 29, 1986.

22. Council of Ontario Universities, The Financial Position of Universities in Ontario: Some Relevant Data (Report 85-3), April 1985, page 11.

23. Ibid., p. 8

24. Tripartite Committee on Interprovincial Comparisons, Chairman: Paul Stenton, Interprovincial Comparisons of University Financing, Seventh Report -- April 1986, pages 5 and 8.

25. Ibid., page 7.

26. Council of Ontario Universities, op. cit., page 9.

27. Ontario Ministry of Colleges and Universities, Report of the Ontario Student Assistance Program, 1983/84.

28. Ontario Council on University Affairs, Eleventh Annual Report, 1984-85, 1985, page 48.

29. Estimates Speech, op. cit.

HEALTH CARE

DEFINITION

The health care industry consists of the provision of a diverse set of goods and services. It remains heavily regulated and funded predominantly through public channels. Health care services are, however, provided by both the public and private sector. While it is recognized that a variety of definitions and categories exist, for the purposes of this study health care will be defined under the following categories:

Institutional Health Care Services

- Hospital system
- Emergency care
- Extended care
- Laboratory Services

Professional Practices

Community Health Care Services

- Public health
- Mental health
- Home care
- Health Service Organizations

Other Services

- Insurance Plan

INDUSTRY STATUS

The health care sector employs 228,683 people in Ontario, accounting for 8.3% of total jobs in the Province. Canadian health care expenditure as a percentage of GNP increased from 5.9% in 1962 to 7.3% in 1980 (see Table 1). Ontario's expenditure as a per cent of GPP rose from 5.6% to 6.9% in the same period. It has fluctuated between 6.6% and 7.3% since the early 1970's. (See Table 2).

Ministry of Health, Statement of Expenditure by Program

Program	1984-85 ($ Millions)
Ministry Administration	85.3
Institutional Health	4,867.3
Public & Mental Health	629.7
Health Insurance	2,760.6
Ministry Total	8,342.9

Institutional Health Care Services

Hospital System

Number of establishments and employment

The hospital system in Ontario consists of 220 public hospitals. These include specialized children's treatment centres, cancer treatment facilities and drug and alcohol addiction centres as well as general hospitals. There are also 17 private hospitals, 13 federal hospitals and nursing stations, 10 provincial psychiatric hospitals and 8 miscellaneous psychiatric facilities.

According to Ontario Hospital Statistics the total rated bed capacity of these facilities in 1985 was 59,134, of which 89% were in public hospitals. Of the remaining beds, 1.4% were in private hospitals, 0.8% were in federal hospitals and nursing stations and 8.3% were in psychiatric facilities. The distribution of staffed hospital beds in public hospitals was as follows: 74.0% acute beds, (55.0% in med surgery, 6.3% in obstetrics, 7.7% in paediatrics, 5.0% in psychiatry, 0.12% in alcohol/drug abuse) 22.1% in chronic care and 3.9% rehabilitative.

Employment in hospital services accounted for approximately 163,088 persons in 1985. This accounted for 4.4% of total employment in Ontario.

In 1985 there were a total of 118,410.9 full-time equivalent staff employed in public hospitals. While the full-time staff figure remained relatively stable, this represented an increase of 7.4% for part-time over the preceeding year. (100,365 full-time, 44,694 part-time). Nursing was the largest sector accounting for 44.3% of total employment. Next was administration and support with 31.8%, followed by diagnostic, therapeutic and emergency services with 22.1%, education with 1.0% and special research with 0.8%.

Private hospitals recorded a total of 751 full-time and 509 part-time employees in 1984. Federal hospitals/nursing stations recorded 1,015 full-time and 165 part-time staff. In 1985 psychiatric hospitals recorded a total of 6,917 full-time and 798 part-time staff.

Composition of Industry by firm size

The composition of the hospital system by firm size depends on the nature and complexity of the treatment offered. Community general hospitals usually have fewer than 200 beds and offer primary health care. Most of the physicians employed are general practitioners with specialists available on a part-time basis. In 1985 there were 144 hospitals in the 1 - 200 bed range and 37 in the 200 - 400 bed range. The 20 hospitals in 400+ range provide more specialized services which utilize more sophisticated diagnostic and therapeutic equipment and methods. While the medical staff at these hospitals are mainly physicians, specialists are available on a full-time basis.

There are also 19 university-affiliated teaching hospitals which provide tertiary level care for patients with severe health problems such as inherited disorders, complicated pregnancies, immunologic, metabolic or endocrine disorders, or severe trauma. These hospitals also work cooperatively with universities to support research and education programs. The medical staff at these hospitals are specialists and most teaching hospitals have no general practitioners on staff.

The majority of private hospitals are small institutions, with only 5 having over a 100 beds. There is one federal hospital with 315 beds, the rest have fewer than 100 beds with nursing stations having fewer than 5 beds each. The psychiatric hospitals are all relatively large, in the 400 - 600 bed range. The miscellaneous psychiatric hospitals range in size from 23 to 257 beds.

Industry Output

In the fiscal year 1984-85 a total of 1.36 million patients received 15.8 million days of care in public and private hospitals. This represented an increase of 1.1% in the number of patients receiving care and an increase of 1.0% from the preceeding year in the days of care given. The majority of the days of care, 71.5%, were for acute treatment while 24.9% represented chronic care. The rest went mainly to rehabilitative care.

The average length of stay in all hospitals was 12.7 days for adults and children (5.3 for new born). For public hospitals the average was 11.5 for adults while for private hospitals it was 22.6 Chronic care patients in private hospitals stayed an average of 716.8 days compared to 237 to 287 days in public hospitals. The average length of stay in federal hospitals and nursing stations was 9.5 days and in provincial psychiatric hospitals 130.6 days.

Industry Growth trends

Between 1978 and 1985 the number of rated hospital beds of public hospitals increased marginally from 52,779 to 52,916, an increase of 0.3%. The number of patients under care also increased marginally from 1.347 million to 1.358 million, an increase of 0.8%. The average length of stay increased from 10.9 days to 11.5 days. Chronic care was overwhelmingly responsible for this increase with the average days of care increasing from 180 to 237, an increase of 32%. According to the Special Data the number of hospitals has declined steadily from 566 legal establishments in 1978 to 305 in 1983.*

The number of full-time staff employed at public hospitals increased from 95,530 to 100,365 an increase of 5.1%. Part time staff increased significantly from 28,497 to 41,632, an increase of 56.8%.

Regional Distribution of Activity

The greater part of health care services, in terms of the hospital system is concentrated in Southern Ontario, particularly in and around Toronto. There are no teaching hospitals or large regional hospitals in Northern Ontario. In the mid 200 - 399 bed range, 7 out of the 38 hospitals are located in Northern Ontario (Sault St. Marie, Thunder Bay, and Sudbury). There are smaller hospitals serving most communities throughout the more populated parts of the province. The remote regions are served by nursing stations. Of the 10 psychiatric hospitals, two are located in Northern Ontario, (Thunder Bay and North Bay). There are no private hospitals located in Northern Ontario.

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* Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

While the hospital system is relatively concentrated in Southern Ontario, health care services for the north are augmented through special programs which will be addressed in other sections of this profile.

Births and Deaths

According to the Special Data the number of hospitals changed drastically during the 1978-1983 period. In 1978, there were 566 hospitals. By 1983, there were 305. During these five years, 294 or 51.9% of the hospitals were closed. A majority of these closings represented amalgamations of existing hospitals and the rationalization of hospital units. Of those closed, 69.7% were hospitals with more than 100 employees, 24.5% were in the medium (20 - 99.9) range and 5.8 % were in the small range. Only 33 new hospitals were opened during this period. Approximately 45.5% were in the largest category, 24.2% were in the mid range and 30% were small hospitals.

Hospital units are being continually closed, established, or expanded as demands change. For example, in the 1983-84 reporting year, St. Michaels in Toronto and St. Catherines Shaver hospital opened general rehab units and eight hospitals were amalgamated with larger hospitals. Extended and chronic care facilities are being enlarged in many hospitals, especially in Northern Ontario. Out-patient facilities are also being expanded in hospitals throughout Ontario.

Profile of Industry Clientele

Aging is the principal demographic factor affecting the demand for hospital services; however, other factors such as household composition, gender and socioeconomic characteristics of the population also play a role. (See Table 5).

Large differences exist among the various age groups in hospital spending. Those aged 65 and over account for almost half of total expenditures but only 10% of the 1983 population. Per capita expenditures on those 85 and over - the highest expenditure age group - were over 70 times higher than those on 5-9 year olds - the lowest expenditure age group. Within the under 45 age group, there are two peaks in expenditures, the first (0 to 4) associated with care of newborns and the second (25 to 29) with pregnancy.

After age 45, per capita costs show an increase in the range of 30% to 50% for each successive five-year age group. Total expenditures on each successive age group are greater even though the number of persons is smaller.

Some differences exist in health care utilization patterns between men and women. Data for Ontario indicate that in 1980-81, women accounted for approximately 57.8% of total separations (discharges from hospitals) and 56.9% of total days of care.*

Foreign Control

According to the Special Data there are no hospitals that are foreign controlled. This extensive Canadian control is maintained by federal and provincial legislation.

Extended Care

Extended care in Ontario includes nursing homes plus the health components of homes for the aged. According to the Annual Report of the Ministry of Health, in 1984 there were 331 nursing homes in Ontario with a total capacity of 28,900 beds. Of these facilities, 28 homes with a total of 2,785 beds are located in Northern Ontario. These establishments are privately owned operations and are licenced by the provincial government. According to the Special Data there were 238 related health care firms in 1983 (related health care firms include nursing homes and homes for the physically handicapped and or disabled). This represented a decrease of 29.8% since 1978.

Similar to 1978, medium-sized firms accounted for the majority (64.3%) of the total firms. This was followed by small firms (23.1%) and large firms (12.6%). The data also indicates that between 1978-83 there were 148 firm closures and 47 new firms were established.

In 1983 there were 16,951 full year equivalent employees which represented an increase of 17.2% from 1978. The payroll for 1983 was $204 million, an increase of 85.5% since 1978. In 1985 there were 13,671 employees which accounted for 0.4% of total Ontario employment.

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* In 1981 women were 50.7% of the population.

Revenue figures for nursing homes and for the health component of homes for the aged have been compiled in Ontario Statistics. In 1980-81, nursing homes recorded total revenues of $323.55 million, which represented a five fold increase from a decade ago. The homes for the aged recorded revenues of $186.05 million in 1980-81, which represented a 219% increase from 1970-71. The major source of revenue for both facilities was the government which funded 67.4% of nursing homes and 69.3% of the health component of homes for the aged. Other sources of revenue for nursing homes were residents and other (32.5%) and Worker's Compensation Board (.03%). Residents provided 27.4% of the revenues for the health component of homes for the aged and Sponsoring Agencies provided 3.3%.

Total expenditure for nursing homes and homes for the aged amounted to $489.2 million in 1980-81, which represented a four fold increase from the previous decade. In 1980-81 expenditures on nursing homes and homes for the aged accounted for 11.1% of the total expenditure on institutional care. In 1970-71 it accounted for 8.5% of total institutional expenditure.

In the related health care sector only 1 out of 339 firms was foreign controlled during 1978-1983 and it was a medium sized firm. In the para-medical sector, only 1 out of 802 firms was foreign controlled and it was also a medium sized firm. Payroll and employment data for both sectors are not given in order to preserve the confidentiality data of these two firms.

Thus it would appear that foreign ownership in the health care industry is not an issue at present.

Emergency Services

The emergency health services in Ontario are made up of many interrelated activities, programs and services. The central feature of the system is the ambulance network which consists of 183 ambulance services across the province. Of these services 74 are privately operated while 66 are operated by hospitals, 5 by municipalities, 33 by volunteers and 9 directly by the Ministry of Health. There is also an air ambulance fleet which services all of Ontario but is especially relevant for remote areas in the North.

According to the Ministry of Health, 3,000 people are employed in ambulance services in Ontario. More than 60% of the full-time driver/attendants are certified as Emergency Care Medical Assistants. In addition paramedics have been recently introduced into the system in a pilot program.

In terms of output the ambulance fleet carried over 654,000 ill or injured people in 1984-85. The air ambulance fleet responded to 10,324 calls.

Expenditure for emergency services amounted to $124.8 million which represented 2.6% of the institutional health care budget in 1984-85. Ambulance and related emergency services accounted for 71.7% of the total emergency services expenditure. Employee salaries, wages and benefits accounted for 13.7%.

Laboratory Services

The laboratory industry in Ontario consists of individual units within hospitals, and 183 private and 13 public health laboratories. The public health labs are concentrated in Toronto with two satellite stations in Timmins and Sudbury.

The hospital laboratory sector is funded through hospital budgets and the private sector is funded through OHIP. The public health labs are funded directly by the Ministry of Health. The estimated cost of all laboratory services in Ontario for 1981-82 was $371.8 million. The expenditure on lab services in 1984-85 within the institutional health budget was $22.1 million, which represented only 0.5% of the total institutional health expenditure.

Professional Practices

The professional practices sector consists of offices of physicians and surgeons and offices of para-medical personnel, including dentists. The available data indicate that on the whole, these practices operate through small firms with fewer than 20 full year equivalent persons each. The number of births and deaths have been fairly significant and the actual number of firms as well as employees have increased over time. The major source of revenue for physicians and surgeons and some para-medical personnel is the Ontario Health Insurance Plan (OHIP). This section will be divided into two parts: a study of offices of physicians and surgeons and offices of para-medical personnel.

Physicians and Surgeons

In 1985 there were 17,976 physicians and surgeons in Ontario. This accounted for 0.7% of total Ontario employment. According to the Special Data there were 7,041 firms in 1983 employing 17,628 (fye) physicians and surgeons. This represented an increase of 39.6% in the number of fye physicians and surgeons since 1978. The vast majority of these firms (99.5%) were small businesses with fewer than 20 fye persons each. Thirty one firms were in the mid range and 5 firms employed more than 100 people. Between 1978 and 1983, 1,714 firms or 29.7% of existing firms in 1978, ceased to operate. In the same time period 2,987 firms were created. Almost all the activity was in the small business range.

According to Ontario Statistics, of the 18,214 physicians and surgeons registered in 1983, 42.0% were in general practice, 40.9% were specialists, and 17.1% were interns and residents. According to the Special Data the payroll of physicians and surgeons in 1983 was $214 million, a 120.6% increase in nominal terms from 1978. Total OHIP billings in 1985 were $2.2 billion for medical health professionals which accounted for 91.8% of total OHIP claims.

In Ontario there is an average of 1 physician per 615 people. This breaks down to 1 general practitioner per 1,220 and one specialist per 1,242 persons. In Northern Ontario, while the general practitioner per capita figure is similar (1,226) the specialist figure almost doubles to 1 per 2,319. This problem is being addressed through the Underservice Area Plan.

There are no offices of physicians and surgeons which are foreign-controlled. In offices of para-medical personnel (physiotherapists, nurses, nutritionists, optometrists, etc.) some foreign control does exist but it is negligible.

Para-Medical

Para-medical personnel include occupational therapists, physiotherapists, nurses, chiropractors, nutritionists, osteopaths, optometrists, podiatrists, and other health practitioners n.e.s. According to the Special Data, the para-medical personnel sector in 1983 consisted of 1,174 firms, which employed 3,840 fye persons. The vast majority (99.0%) of these firms were also small firms employing fewer than 20 persons each. There were 11 firms in the mid range and

1 firm employing over 100 fye persons. In the 1978-83 period there were 234 deaths of which 233 were in the small business sector. There were 606 new firms created in the same period of which 600 were also in the small business sector.

OHIP payments to the relevant para-medical professionals in 1984 was as follows: Chiropractic, $54.0 million; Optometric, $41.9 million; Physiotheraphy, $15.8 million; Dental, $8.5 million; Chiropody, $4.9 million; and Osteopathic, $0.3 million. (See Table 8).

Offices of dentists are recorded separately in the Special Data. In 1983, there were 2,622 firms employing 8,285 fye employees. This represented an increase of 24.4% in the number of firms and 78.9% in the number of fye employees since 1973. The vast majority of firms were in the small business sector. Only 15 firms were in the mid-range and there were no firms with fye employees over 100. In the 1978-83 period 611 offices were closed and 1,126 were established. Again, a major part of the activity took place in the small business sector.

Health care professionals tend to be concentrated in Southern Ontario. In order to attract professionals to the Northern and remote areas of Ontario the Underserviced Area Program was introduced in 1969. This program provides incentives such as guaranteed tax free incomes, for health care professionals to relocate to Northern Ontario. Since 1969-70 this program has attracted 354 general practitioners, 111 specialists, 91 dentists and 24 physiotherapists to underserviced areas. Bursaries are also offered to a range of health care professionals including medical, physiotherapy, dental, occupational therapy and audio students, in exchange for services for a set period of time upon graduation. Expenditures in 1984-85 for this program was $5.2 million which represented 0.8% of the Public and Mental Health expenditure under whose jurisdiction the program is operated.

Community Health Care

Total expenditure for public and mental health (which includes home care) amounted to $629.7 million in 1984-85. This accounted for only 7.5% of the total expenditure on health care. In 1983-84 public and mental care health accounted for 7.9% of total expenditure on health care.

Public Health

The 1984 Health Protection and Promotion Act sets out seven standard health services that must be available to all people in Ontario. They are: community sanitation, communicable disease control, preventive dentistry, family health, home care, nutrition and public health education. This work is overseen by 43 boards of health which are staffed by a variety of health professionals. As well the Community and Public Health Branch within the Ministry of Health has a staff of 489 people.

Public health programs include family planning, speech and audiology programs, venereal disease control, tuberculosis prevention, and home care. In 1984-85, total public health care program was only $237.8 million or 2.9% of total health care expenditures.

Mental Health

The Community Mental Health Services Program was introduced in 1976. It began a trend towards deinstitutionalization and an attempt to integrate patients back into the community. The share of expenditures on mental hospitals as a per cent of total health care expenditure in Ontario has remained relatively stable at 10.7% between 1970-1980. Some psychiatric facilities were closed and community based programs were expected to fill in the gap. The hospital based expenditure as a share of total mental health expenditure declined from 76.9% in 1970-71 to 68.6% in 1980-81. Anecdotal evidence suggests that while costs declined this has not always worked to the best interest of the patients as there have been insufficient funds to maintain adequate services in community programs.

Expenditure for mental health was $391.2 million for 1984-85. This represented 4.7% of the total health care expenditure by the Ministry of Health. Salaries, wages and employee benefits accounted for 57% of community mental health expenditure. Homes for special care received 22.0%, community mental health programs received 9.7%, detoxification centres received 2.1%, and the Ontario Mental Health Foundation received approximately 1.0%.

In 1970-71 institutional mental health care received $209.9 million, accounting for 76.9% of total mental health expenditures in Ontario. Public mental hospitals accounted for 78.8% of total institutional expenditure.

Community mental health and homes for special care received $33.1 million and accounted for 12.1% of the budget. Deinstitutionalization saw the share of institutional health care fall to 68.6% of total expenditure by 1980-81. However, the community mental health and homes for special care's share of total expenditure only increased to 14.4%.

Home Care

Home care is the largest program with the public health program. There are 38 home care programs in Ontario funded by the Ministry of Health and operated by local administrative agencies. Home care programs provide care, on a visiting basis, for patients who are either recovering at home from an acute illness or suffering from a chronic health problem. The administrating agency, which may be the Board of Health, the Victorian Order of Nurses, a local hospital board or another incorporated board, employs specialized health care professionals for the home care program.

In 1984-85 home care services had a case load of 203,756 acute patients, 217,547 long-term patients and 1,812 patients through the school health support services program. This resulted in 2.9 million days of care for acute patients, 4.3 million days of care for long term patients and 8,739 days of care through the school health support program. (see Table 4)

Health Services Organization

Health Service Organizations are independently managed entities providing physician and other health services to an enrolled client group. HSO's are free to decide how best to allocate resources, and may hire other health care practitioners. There are currently some 21 Health Service Organizations in Ontario funded through the OHIP transfer payment. Total funding for HSO's in 1984-85 was estimated at $23 million out of a total OHIP expenditure of $2,416 million. Physicians services provided by HSO's are funded on a "capitation basis" rather than on a traditional fee-for-service basis. Capitation payments are per capita payments made to the HSO for each enrolled subscriber based on subscribers' age, sex and expected need for medical care.

As a result of this organizational and funding arrangement, HSO's place special attention on health maintenance and illness prevention and emphasize reduced institutional health care.

Evaluation studies have found that HSO's generally have lower hospital utilization rates than non-HSO's. In Sault Ste. Marie, for example, where approximately 50% of the local population is enrolled in an HSO, hospital utilization rates are some 27% less for HSO members than for the rest of the district. However, due to the small size of the total HSO population (less than 2% of Ontario's population), hospital savings have not been realized as non-HSO patients offset any reduction in hospital utilization. Continued growth in the HSO program is largely dependent on interest shown by physicians and their desire to enter into an HSO agreement.

Support and Other Services

Ontario Health Insurance Plan (OHIP)

The Ontario Health Insurance Plan is a Provincially operated insurance plan which provides Ontario residents with access to health care regardless of their age, state-of-health or financial means. In March, 1985 there were a total of 8.9 million participants in OHIP. The plan provides coverage for physicians services, laboratory and radiology testing and most costs associated with hospital treatment. In addition the plan also covers such services as optometric, chiropractic, osteopathic, chiropodic, and physiotherapy. Some coverage is available for dental services provided by hospitals. The vast majority of payments (91.8%) were for medical services. (See Table 5)

OHIP is financed by premiums collected from Ontario residents, employers and by the government. The premium in 1985-86 ranged from $29.75 (single) to $59.50 (family) per month. (See Table 6). However, premium assistance is available, depending on the level of income, and no premiums are collected from people over 65 years of age. In 1985, the cost of subsidizing these premiums was $746 million. Most (83%) premiums are collected from employer groups. The remaining 17% are collected directly from subscribers. Premium revenue in 1984-85 was $1.6 billion dollars. However, total OHIP expenditure (claims paid) was $2.4 billion which represented 33.1% of total health care expenditure by the Ministry of Health. The portion of the Ministry's expenditure covered by premiums has declined from 24.6% in 1978-79 to 16.6% for 1986-87.

Groups accounted for 58.8% of participants and accounted for 53.2% of total payments through OHIP. Full paying individual participants accounted for 11.2% of total participants and 12.4% of OHIP payments. Fully assisted participants accounted for 6.0% of participants and 7.3% of total OHIP payments. Senior citizens accounted for 15.9% of participants and 20.8% of total OHIP payments. (See Table 5).

During 1983-84, 71 million claims were processed by OHIP. Almost 1,800 people are employed by OHIP. The Head Office of OHIP is located in Kingston and there are 20 district and satellite offices spread throughout Ontario.

In terms of jurisdiction, while the Ministry of Health has the greater responsibility, the Ministry of Community and Social Services is also active especially in the area of community health care, as are local governments.

KEY ECONOMIC FACTORS & INDUSTRY OUTLOOK

The key economic factors affecting Ontario's health care system today are demographics and medical high technology. At the centre of these issues is the major public policy concern with the cost escalation/underfunding of Ontario's health care system.

The financing and cost of the health care system in Ontario has become a major policy issue. Preliminary data from Health and Welfare Canada noted that in 1985 total health care expenditure in Ontario was $14.1 billion, which represented an increase of approximately 213% in nominal terms since 1975. Ontario's expenditure on health care accounted for 36.0% of the total health care expenditure in Canada in 1985. The total health care expenditure in Ontario accounted for 7.8% of the provincial gross domestic product in 1984.

The institutional sector's expenditure as a per cent of provincial GDP increased from 9% a low of 3.40% in 1980 to 3.83% in 1984. Professional services have increased steadily from 1.5% in 1976 to 2.0% in 1984. Physicians' share of expenditure increased from 1.07% in 1976 to 1.40% in 1985.

Since 1976-77, total provincial expenditure on health care has grown at an average annual rate of 11.3% while total provincial expenditure (excluding public debt interest) grew by 9.3% and the CPI rose by 8.1% annually. Health care now absorbs 32 cents of every dollar of Provincial spending as compared with less than 28 cents ten years ago. The Provincial expenditure on health care for the year 1984-85 was $8.343 billion, of which institutional health was the largest component, accounting for 58.3% of the total. This was followed by health insurance (of which the largest component was fee for service to health care professionals) 33.1%, public and mental health with 7.5% and ministry administration was 1.1%.

Growth in Provincial expenditure on health care has, in part, been necessitated by federal cutbacks in transfer payments. Prior to 1977 the federal and provincial governments shared the cost of institutional health care on an equal basis. Then the Established Program Financing (EPF) was instituted to provide for the transfer of funds from the federal government to the provinces for health care and post-secondary education. Since 1979-80, the federal share of EPF has fallen from 50% to 43% and further cutbacks have been proposed.*

Excluding the EPF, other sources of revenue in 1984-85 were:

	$ Million
Government of Canada	17.1
Ontario Health Insurance Premiums	1,586.2
Loans to Public Hospitals	15.3
Miscellaneous	57.5
Total	$1,676.1

Another constraint on provincial health care expenditure was the 1984 federal Health Care Act which imposes financial penalties on any province where extra-billing is practiced. In Ontario this amounted to $4.4 million per month. In order to comply with the federal legislation and to ensure accessibility to health care without regard to an individual's financial circumstances or ability to pay, the Ontario government passed the Health Care Accessibility Act in June 1986 prohibiting the practice of extra-billing. The Constitutional validity of this legislation is being challenged by the Ontario Medical Association.

Demographics

Ontario's aging population structure will impact directly on overall health care and hospital costs. (See Table 7)

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* There is considerable dispute between the federal and provincial governments regarding the allocation of funds between health care and post-secondary education. According to Ottawa, it should be allocated on an equal basis which would result in increased funds for education. Ontario maintains that it is the province's responsibility to decide how the funds should be allocated.

In 1983, there were slightly more than 900,000 persons aged 65 and over in Ontario, representing some 10% of the total population. By the year 2006, it is estimated that there will be some 1.5 million elderly in Ontario, comprising more than 14% of the population. This represents some 600,000 additional seniors over the next two decades.

While seniors currently account for some 10% of the population, they consume some 40% of all acute days of care, 80% of patient days in chronic care and comprise some 91% of extended care patients. Chronic and extended care facilities will therefore be under greater pressure from the aging population.

Because hospital expenditures start to increase at age 45, expenditure pressures due to aging will be rising rapidly over the next 10 years as the baby-boom generation reaches age 45 and beyond.

The presence of another person in the household allows for mutual support in times of illness, thus reducing hospital utilization. The impact of living arrangements on hospital utilization is particularly relevant to older persons as they are more likely to be widowed and, if sick, are therefore more likely to require hospitalization. Furthermore, the decline in the extended family has led to the elderly becoming more reliant on sources outside the family (such as hospitals) for care in times of illness. Other social changes have also resulted in an increase in one-person households of all ages. The overall effect is to increase hospital utilization and put greater pressure on alternative services such as home care.

Much of the expenditure on the 25-34 age group is associated with childbirth. As the baby-boom generation moves out of the prime childbearing age groups in the next few years, less pressure will be exerted on hospital costs associated with childbearing. However, as women have children later in life, costs may be driven upwards due to the longer average length of stay in hosptial.

The outlook in terms of the elderly is that given demographic trends and present health care utilization patterns, health care costs will increase significantly. One of the problems is that because there are insufficient facilities at the lower cost end (nursing homes and homes for the aged) many of the elderly are placed in inappropriately higher cost acute and chronic care beds. Considerable savings could be made if more lower-cost nursing homes and homes for the aged beds were made available as well as more and better community based programs which allowed the elderly to remain at home. It has been estimated that the establishment of less acute level care could imply a potential saving on hospital operating costs of $27 billion over the next 50 years. This would not only lower health care costs but improve the quality of life of the elderly as well.

Medical High Technology

Advances in new medical high technology also contribute to rising health care costs. Recent developments such as ultrasound scans, computerized axial tomography (CAT) scanners and advances in organ transplants, for example, provide important but costly applications.

For example, equipment and capital costs for a CAT scanner may be as high as $750,000 while ultrasound scanners may range from $35,000 to $60,000.

The proliferation of these new medical technologies is necessary for "state-of-the-art" medicine. The challenge, however, is to introduce and utilize these costly technologies and procedures in an efficient manner.

STATUS IN OUTSIDE MARKETS

International transactions in the health care sector can be thought of in terms of both trade and investment:

- Delivery of clinical health care services, be it a private practice or an institution, reflects an establishment or investment transaction in international trade; and

- Health consultancy is basically a tradeable service.

International trade in health care services primarily takes place through one of the following ways:

- construction, ownership and facilities offering personal health care;

- purchase, and subsequent operation of facilities offering personal health care;

- development (which can include construction) and operation of health service facilities under contract to a foreign government, industrial organization or other sponsoring agency; and

- provision of technical assistance or consulting services to a foreign government or other purchaser in the planning, design, or operation of a health care facility or service.

Trade also takes place in terms of students from other provinces and especially outside Canada who receive health care training from Ontario facilities. In addition, there are various organizations (Med Can International, CUSO) which promote the export of Canadian health care services for a variety of reasons.

Interprovincial and International Activity

According to Ontario Statistics data, in terms of imports, payments by OHIP for health care services outside the province, including outside Canada in 1984-85 were $73.2 million. This acounted for only 3.0% of total OHIP payments. In terms of exports, data for revenue of public hospitals indicate that in 1983-84, revenue from other provinces amounted to $85.5 million and revenue from uninsured and non-residents of Canada was $39.0 million. Together, this represented only 3.1% of total revenues of public hospitals. In 1978-79 revenue from other provinces amounted to $44.4 million and uninsured and non-residents amounted to $18.0 million which together accounted for 2.9% of total public hospital revenues. There are no regulatory restrictions on health care fees charged to non-residents.

International trade, in terms of private sector health care services, seems promising. Ontario nursing homes, led by Extendicare Health Care (a subsidiary of the financial holding company Crownex) have many establishments abroad. More than half of Extendicare's 21,000 nursing home beds are in the United States. The U.S. has been identified by these nursing homes as a market where future growth can occur. Extendicare is currently considering expanding to Europe.

There is also a great deal of potential for trade with the developing world. Current trade focuses on technology transfer through biotechnology firms such as Connought Laboratories, turnkey projects, human resources and education support systems. The greatest potential growth is in technology transfer where joint ventures with international firms who package and distribute Canadian technology have proved successful in the past. However, difficulties in raising capital in Canadian markets have apparently inhibited the growth of these firms in the international arena.

There is a market for turnkey projects which include the design, equipment and construction of health care facilities. However, the Canadian suppliers are fragmented and face stiff competition from large German and French consortiums. These competitive forces generally tend to be supported in some form by their home governments and consequently are almost impossible to outbid for the large scale projects.

The export of health care services is promoted by the Ontario International Corporation. In addition to turnkey hospital projects, Ontario has certain areas of specialized expertise which could be exported to the U.S. and other advanced industralized countries. These include organizational tools incorporated within the OHIP system, advice on the establishment of emergency health care systems, medical laboratories and on the bulk of purchase and storage of medical and pharmaceutical supplies for hospital services, especially state-run institutions.

Exports to developing countries could include training of hospital staff, human resources planning, teaching new techniques in medical care, hospital administration, hospital design and construction.

It must also be noted that Ontario has a cadre of trained experts in the health care field with both private and public sector experience. The knowledge of these experts should be drawn upon to promote the export of health care services in new and innovative forms.

In terms of private sector imports there is relatively little activity in Ontario. The idea of health care for profit has not been popular in Ontario, and foreign ownership of a profit making health care facility is apparently even less acceptable.

There are two hospitals in Ontario that are currently managed by American Medical International, a huge U.S. management firm with considerable international experience. However, the goal of these firms is to own hospitals, and they are precluded from doing so by Canadian regulations which ensure hospitals remain within the public sector. It must also be noted that the management contracts are usually awarded in exchange for other goals. For example, the hospital in Hawkesbury awarded a 10-year management contract to American Medical International in return for a loan of $10 million to construct a new wing.

Central issues involved in health care services trade include:

- Competition between private and public health care providers: foreign health service firms may face difficulty finding a market in Canada because of the largely public nature of Canadian health institutions.

- Right of establishment: provision of health care services requires the establishment of a local presence hence it reflects an investment transaction; and

- Immigration policies and the international movement of labour: international movement of health care professionals is restricted on the one hand, by licensing and professional standards regulations that are non-discriminatory in that they apply equally to all to ensure quality control and on the other hand, by citizenship, immigrant or employment visa requirements that are discriminatory.

In addition, the Ministry of Health has identified the following areas where there was an Institutional Health position concerning U.S.-Canadian exchanges.

- If an Ontario hospital is considering the establishment of additional beds using outside capital funds for use by non-Ontarians (U.S. citizens), the Ministry would require assurances by that hospital that such a plan would in no way affect the rights of Ontario residents to use these beds or their associated services before a non-resident.

- For non-Canadian patients, Ontario hospitals are free to set their own charges.

- With respect to the sharing of organs for transplantation, Ontario recipients would be considered first, except where an appeal has been made in a high priority situation concerning a non-resident.

It would appear that opportunities to export health care services exist. Health care, does however, remain an emotional issue and there would have to be considerable political will to sustain a successful export drive in the health care field.

Barriers to Trade

There are numerous statutes governing the provision of health care services in Ontario. Generally, these statutes do not impose direct non-tariff barriers but may act as indirect barriers to trade in health care services. For example, licensing qualifications among health care practitioners do act as barriers to trade. Barriers in other countries are similar to those found in Canada in that health care is largely a public concern.

A Canada-U.S. free trade agreement that reduced barriers to trade and investment in health care services would require amendments to many Ontario statutes (see section on regulations).

REGULATORY ENVIRONMENT

A host of regulations governs the production and delivery of health care in Ontario. Health care services are governed by provincial laws and regulations, although the federal government provides much of the funding and has regulatory authority through the Health Care Act (1984) which provides universal and accessible health care for Canadians.

Public institutional health care services are government regulated and funded, notably by provincial governments (i.e. public license, standards, budget control, etc.). Private health care services may be subsidized by government and are also regulated by provincial governments and professional organizations.

The most comprehensive of the many statutes regulating health care professionals is the Ontario Health Disciplines Act R.S.O. 1980 c. 196 which regulates the qualifications, standards and activities of several health disciplines. All professionals regulated by this statute are required to meet educational training requirements either specifically listed in the statute and regulations (such as Canadian degrees), or equivalent standards as may be recognized by their governing bodies.

GOVERNMENT ASSISTANCE

Federal

While the province retains jurisdictional responsibility for most health services and education, the Federal government participates in health matters in the following ways:

- Medical research is a primary responsibility of the Federal Government. It provides support through the Medical Research Council and a health research grant in the Department of National Health and Welfare.

- Grants-in-aid to the provinces (the Hospital Insurance and Diagnostic Services Act, the Medical Care Act, and the Health Resources Fund Act).

- Studies and investigations of matters of nationwide import supported by a National Health Grant.

- Consultative and advisory services, particularly for the less populous provinces.

Federal participation in education is largely on the basis of grants-in-aid.

For the fiscal year 1985-86 Ottawa provided to the provinces in cash and tax points a total of $11.2 billion of which Ontario received $4.0 billion.

Ontario

Ontario provides assistance in the health care sector through the following programs:

Health Insurance Act

This legislation complements the federal Hospital Insurance and Diagnostic Services and Medical Care Acts, and provides authority for the province to participate in these programs. The province has extended its program to other services not financed by the Federal Government. These services are:

1. Examinations of the eye by refraction when carried out by an optometrist.

2. Services provided by chiropractors, osteopaths and chiropodists (podiatrists) with an annual limit on the amount of insured benefits.

Public Hospitals Act

Two-thirds of the capital cost, including start-up equipment, is paid for new construction or major renovation. Minor renovation is included in operating costs. All of the capital cost for health training and research facilities, including start-up equipment, is covered by the Health Resources Funds.

Public Health Act

It provides the legislative authority for the public health program. In addition, it establishes that the province will pay three-quarters of the operating cost of public health units. Any capital development required for the program qualifies for provincial financial assistance of two-thirds of the cost.

Other provincially funded and administered health care acts are:

- Mental Health Act, Mental Hospitals Act;
- Community Psychiatric Hospitals Act;
- Children's Mental Health Centres Act;
- Children's Mental Hospitals Act.

POLICY POSITIONS

Government Position

In the April 22, 1986 Speech from the Throne, the Government reiterated its commitment to providing "affordable and accessible quality health care". The government also announced the launching of a study on future directions in health care. In June 1986, the Health Care Accessibility Act was passed banning extra-billing.

APPENDIX

The following health disciplines are regulated under the Health Disciplines Act:

- Dental Hygienists: educational requirements only (R.R.O. 1980, Reg. 446);
- Dentists: educational requirements fluency in French or English, and Canadian citizenship, immigrant visa or employment visa (R.R.O. 1980, Reg. 447);
- Doctors: educational requirements, fluency in French or English, and Canadian citizenship, immigrant visa or employment visa (R.R.O. 1980, Reg. 448).
- Nurses: educational requirements, and fluency in French or English (R.R.O. 1980, Reg. 449);
- Optometrists: educational requirements, fluency in French or English, and Canadian citizenship, immigrant visa or employment visa (R.R.O. 1980, Reg. 450); and
- Pharmacists: educational requirements, fluency in French or English, and Canadian citizenship, immigrant visa or employment visa (R.R.O. 1980, Reg. 451).

The Ontario Denture Therapists Act R.S.O. 1980 c. 115 regulates denture therapists who must also meet required educational standards and have Canadian citizenship or legal immigrant status (R.R.O. 1980, Reg. 238).

The Dental Technicians Act R.S.O. 1980 c. 114 regulates dental technicians in Ontario who do not have to meet residence requirements but must have performed apprenticeship services in Ontario. Similarly the Opthalmic Dispensers Act R.S.O. 1980 c. 364 requires opticians to have had at least one year's training in Canada.

The Radiological Technicians Act R.S.O. 1980 c. 430 requires applicants to meet educational requirements and be competent in English or French.

Ontario statutes requiring applicants to meet educational standards only include:

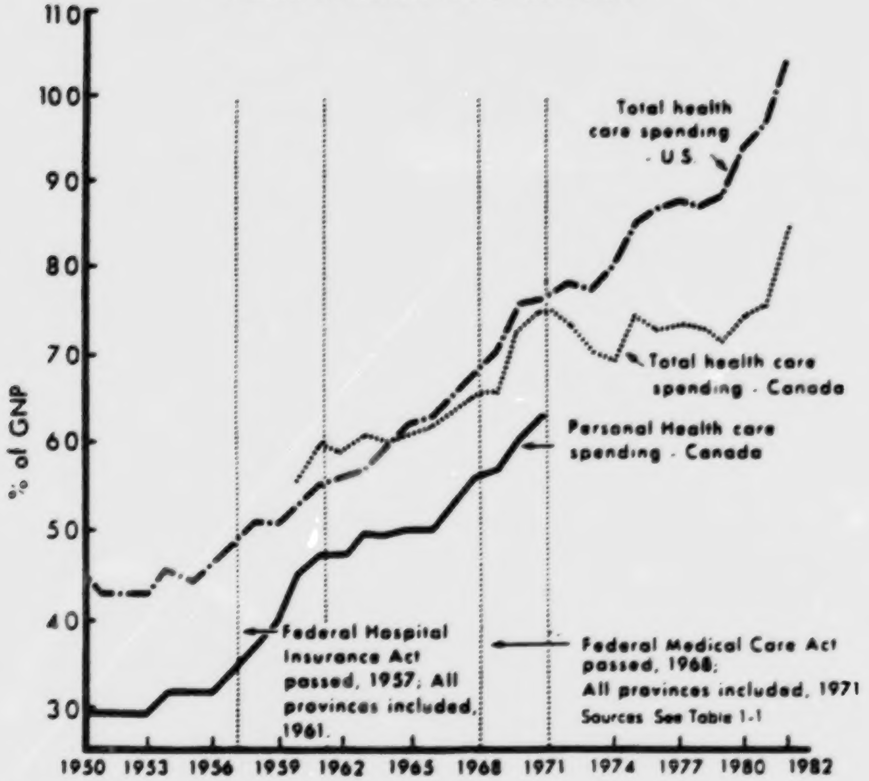
- Drugless Practioners Act R.S.O. 1980 c. 127;
- Psychologists Registration Act R.S.O. 1980 c. 404; and
- Veterinarians Act R.S.O. 1980 c. 522.

Some Ontario statutes governing the provision of institutional and other health care services include the following:

- Alcoholism and Drug Addiction Research Foundation Act
- Ambulance Act
- Cancer Act
- Cancer Remedies Act
- Child and Family Services Act
- Community Psychiatric Hospitals Act
- Healing Arts Radiation Protection Act
- Homemakers and Nurses Services Act
- Hospital Labour Disputes Arbitration Act
- Mental Health Act
- Mental Hospitals Act
- Municipal Health Services Act
- Nursing Homes Act
- Ontario Mental Health Foundation Act
- Private Hospitals Act
- Private Sanitaria Act
- Health Protection and Promotion Act, 1983
- Public Hospitals Act
- Laboratory and Specimen Collection Centre Licensing Act

Table 1

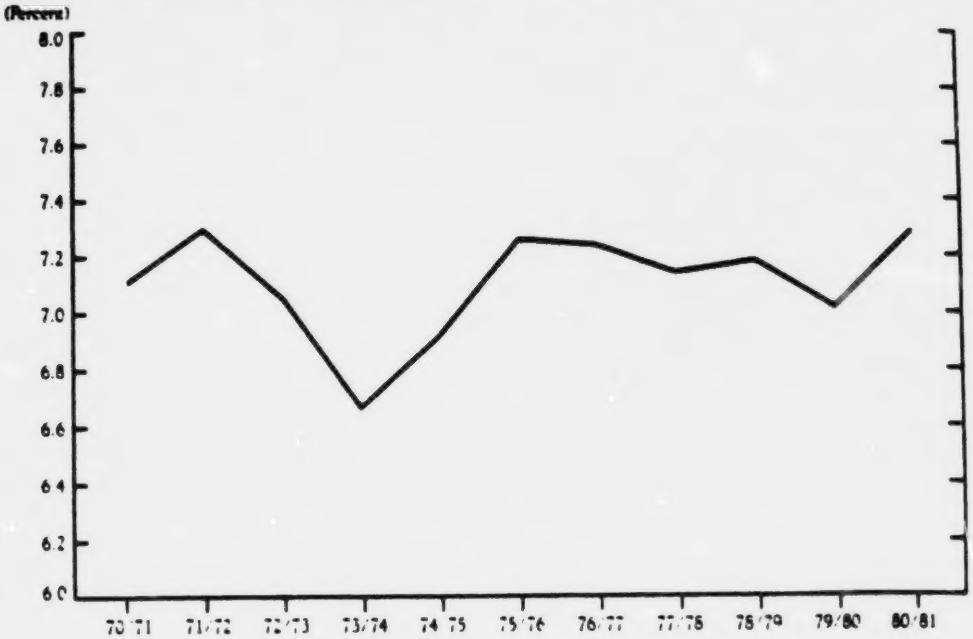
Health Care Spending as a Percentage of National Income, Canada and the U.S., 1950-1982



Source: Robert G. Evans. Strained Mercy: The Economics of Health Care. p.10.

TABLE 2

Health Expenditures as a Percentage of Gross Provincial Product, Ontario, 1970/71 to 1980/81



Source: Ontario Statistics, 1984.

Table 3

Projected Per Capita Expenditures in Selected Health Care Services

Projected Per Capita Expenditure (Operation of Hospitals & Related Facilities)		Projected Per Capita Expenditure (Physician and Practitioner Services)	
Age Group	Per Capita Expenditures 1983	Age Group	Per Capita Expenditures 1983
0-4	209.37	0-4	166.60
5-9	68.11	5-9	104.17
10-14	72.87	10-14	90.39
15-19	136.14	15-19	129.70
20-24	215.77	20-24	172.67
25-29	261.67	25-29	205.40
30-34	240.44	30-34	206.29
35-39	222.05	35-39	194.59
40-44	249.35	40-44	196.29
45-49	324.17	45-49	212.19
50-54	427.30	50-54	231.24
55-59	564.17	55-59	255.42
60-64	726.14	60-64	283.22
65-69	1104.91	65-69	321.48
70-74	1594.44	70-74	364.66
75-79	2322.58	75-79	403.67
80-84	3532.76	80-84	440.74
85+	5261.39	85+	498.22
Calculated	449.61	Calculated	201.93
May 1, 1986		May 1, 1986	

Source: Sectoral & Regional Policy Branch
Ministry of Treasury and Economics.

Table 4

Summary of Ontario Home Care Program Activities 1984/85

(Inclusive of School Health Support Services
Statistics - September, 1984 - March, 1985)

	Acute	Long-Term (Chronic)	School Health Support Services
Admissions	99,932	40,117	586
Discharges	87,852	34,191	116
Case-load	203,756	217,547	1,812
Total Patient Days	2,949,629	4,271,259	8,739
Average Length of Stay	30	123	53
Total Professional Visits			
Nursing	1,044,669	1,203,347	5,546
Occupational Therapy	46,189	40,608	1,074
Physiotherapy	175,304	114,113	1,916
Speech Pathology	5,908	6,277	1,214
Nutrition	4,225	2,357	4
Social Work	4,885	9,493	-
Total Homemaking Hours	925,505	2,852,433	-

Source: Annual Report 1984-85. Ontario Ministry of Health.

Table 5

Summary of OHIP Activities

April 1, 1984 to March 31, 1985

Enrolment	Certificates	(%)	Participants	(%)
Avg. No. of certificates & participants during 1984-85				
Single	1,958,996	(44.3)	1,958,996	(21.9)
Family	2,467,758	(55.7)	6,978,416	(78.1)
Total	4,426,754		8,937,412	
Groups	2,203,035	(49.8)	5,254,886	(58.8)
Full pay	471,290	(10.7)	1,001,344	(11.2)
Partially assisted	5,806	(0.1)	10,101	(0.1)
Fully assisted	345,405	(7.8)	536,291	(6.0)
Temporary assisted	85,205	(1.9)	150,453	(1.7)
65 and Over	1,009,994	(22.8)	1,424,173	(15.9)
D.V.A.	23,884	(0.6)	47,297	(0.5)
Municipal welfare	111,983	(2.5)	186,309	(2.1)
Provincial welfare	170,152	(3.8)	326,558	(3.7)

Total Claim Payments paid during year $2,416,392,749

Service distribution	(All payments)	(%)
Medical	2,217,717,003	(91.8)
Dental	8,497,034	(0.4)
Optometric	41,946,905	(1.7)
Chiropractic	53,981,375	(2.2)
Osteopathic	347,659	(-)
Chiropody	4,899,987	(0.2)
Physiotherapy	15,788,971	(0.7)
Out of Prov. Hospital	73,213,815	(3.0)

Mode of Payment (Based on claims payments)	Physician (%)	Subscriber (%)
Medical	92.2	7.8
Dental	98.7	1.3
Optometric	97.8	2.2
Chiropractic	98.2	1.8
Osteopathy	95.6	4.4
Chiropody	94.3	5.7
Physiotherapy	100.0	-
Overall	92.5	7.5

Revenue

Net premium revenue for combined plan $1,586,179,890

Source: Annual Report 1984-85. Ontario Ministry of Health.

Table 6

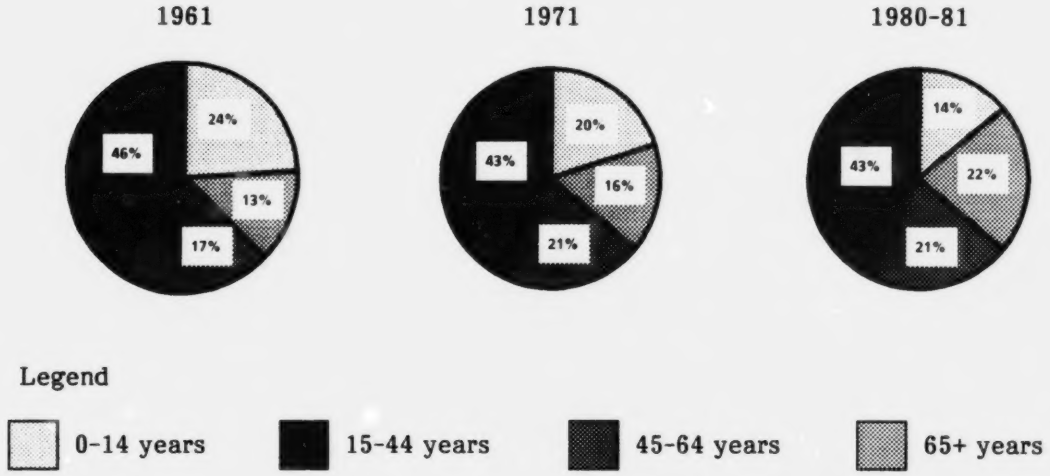
Premiums and Health Costs

Year	Monthly Premium Rate	Premium Revenue	Trans. To Doctors	Trans. To Hosptials	MOH Spending	Portion of MOH Spending Covered by Premiums
	($) (Single/Family)	($M)	($M)	($M)	($M)	(%)
1972-73	11/22	520	540	1,016	2,033	25.6
1973-74	11/22	530	561	1,067	2,194	24.2
1974-75	11/22	548	650	1,375	2,578	21.3
1975-76	11/22	573	742	1,603	3,019	19.0
1976-77	16/32	799	800	1,884	3,439	23.2
1977-78	16/32	830	898	1,993	3,680	22.6
1978-79	19/38	977	1,023	2,058	3,966	24.6
1979-80	20/40	1,037	1,122	2,165	4,272	24.3
1980-81	20/40	1,061	1,334	2,446	4,895	21.7
1981-82	23/46	1,179	1,543	2,956	5,813	20.3
1982-83	27/54	1,365	1,847	3,437	6,770	20.2
1983-84	28.35/56.70	1,476	2,149	3,804	7,584	19.5
1984-85	29.75/59.50	1,586	2,416	4,109	8,343	19.0
1985-86	29.75/59.50	1,622	2,717	4,455	9,244	17.5
1986-87	29.75/59.50	1,653			10,062	16.6

Source: Taxation Policy Branch, Ministry of Treasury and Economics.

TABLE 7

Percentage of Separations, by Age Group, Canada, 1961, 1971 and 1980-81



Source: Statistics Canada, Hospital Morbidity 1979-80, 1980-81. (82-206) July 1984.

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	(also past director of Extendicare's international sector) 613-549-5253
Sectoral & Regional Policy Branch	
	Demographics Margot Almond. 965-7081
Economic Policy Branch	Trade & Services Sector. Tony Stillo. 965-6613
Tax Policy Branch	Conrad Gibbs (OHIP) 965-5738

INSURANCE

DEFINITION

Insurance provides a means of transferring the risk of financial loss from an individual or organization to a risk-sharing pool. Life insurance, in addition to compensating dependents for the financial loss resulting from the death of the insured, sometimes provides resources to the insured for an uncertain period of retirement. This latter function of life insurance results in life insurance companies competing against the broad spectrum of financial institutions for personal savings.

INDUSTRY STATUS

Industry Segments

The insurance industry consists of three distinct segments - life insurance, property/casualty insurance (general insurance), and reinsurance. The life insurance segment consists of companies and fraternal benefit societies that are registered to underwrite life insurance and annuity business under the Canadian and British Companies Act, the Foreign Insurance Companies Act, or a corresponding provincial insurance act. The general insurance segment consists of companies registered under any of the above acts to transact business other than life insurance. In addition to registered companies, there are also Farmers' Mutuals in Ontario and provincial crown corporations in Manitoba, Saskatchewan, British Columbia, Quebec. Insurance companies may be either stock companies (owned by shareholders) or mutual companies (owned by policyholders). The reinsurance segment consists of companies, often specialists in a particular line of insurance, that protect a primary insurer from excessive exposure to risk and catastrophic losses by contracting to assume a share of the primary insurer's liability. Not all reinsurance companies are registered either by the federal government or by a provincial government. Many unlicensed reinsurers conduct business with primary Canadian insurance companies.

There are many types of property and casualty insurance products, each one designed to cover specific categories of risks. The products can be grouped in several ways corresponding to types of customers, types of risks, types of perils, etc. The most common groupings are automobile, property, liability, surety, fidelity, marine, aircraft, boiler and machinery, mortgage, credit and title insurance.

Number of Companies

At the end of 1983, there were 257 life and health insurance companies registered to underwrite business in Canada. This total includes 71 fraternal benefit societies. There were 314 property and casualty insurance companies in operation in Canada as well. At the end of 1983, the Superintendent of Insurance for Ontario had licensed 554 companies to underwrite business in the province - 135 life insurance only companies (4 of which were incorporated in Ontario), 268 property and casualty companies (26 incorporated in Ontario), 15 life and casualty companies, 36 fraternal benefit societies (5 incorporated in Ontario), 52 Farmers' Mutuals (all incorporated in Ontario), and 48 mutual benefit societies (all incorporated in Ontario).

Employment

According to Statistics Canada data, insurance carriers operating in Ontario employed 44,459 people in 1984. This represented 1.3% of the total employment in Ontario. Over the period 1975 to 1984, employment levels at insurance carriers in Ontario increased at an average annual rate of 2.5%. This rate of growth exceeded the 2.2% average annual rate of growth for total service industry employment in Ontario during this same period. There were also approximately 25,000 people employed in insurance brokerages and agencies in Ontario in 1984. This number represented 0.7% of total employment in Ontario.

At the end of 1983, the Ontario Superintendent of Insurance had issued licenses to 17,044 life insurance agents, 2,050 non-life insurance agents, and 961 adjusters. Of the life insurance agents, 825 had a dual license and were also registered under the Ontario Securities Act to sell mutual funds. Many of the licensed agents worked for insurance companies and not for the insurance brokerages and agencies referred to above.

Firm Size

In the life insurance segment, five Canadian companies ranked among the 25 largest in North America in 1984 in terms of premiums. Four of these companies (Manufacturers, Sun, Crown and Confederation) have their head offices in Ontario. Altogether there were 16 Canadian companies among the 200 largest in North America.

Industry Output

During the first two quarters of 1985, insurance companies in Canada received $10.7 billion in premiums (see Table 1 for a breakdown of premiums by insurance segment). These premiums resulted in total commissions and salaries of just under $2 billion or 1.0% of total personal income.

In 1983, insurance companies operating in Ontario received $8.7 billion in premiums (see Table 2 for a breakdown of premiums by insurance segment). Over the period 1971 to 1983, life insurance premiums in Ontario increased at an average annual rate of 7.3%, and annuity premiums increased at an annual rate of 18.0%. During this same period, nominal GNP in Canada increased at an annual rate of 12.5%. These growth rates show that annuity business has become relatively more important for life insurance companies and that this business has grown more rapidly than the economy as a whole.

In the general insurance segment, automobile premiums grew at an average annual rate of 13.1% over the period 1971 to 1983; property insurance premiums increased at a rate of 13.9%; liability insurance premiums at a rate of 14.6%; and total property and casualty premiums grew at a rate of 13.5%. All three major classes of general insurance increased more rapidly than the economy as a whole. This might reflect any one of or a combination of the following factors: premium rates increasing more rapidly than inflation; values insured increasing more rapidly than inflation; number of clients increasing more rapidly than the real growth rate of the economy.

Concentration

Concentration levels are higher in the life insurance segment than in the property and casualty segment in Ontario. The 10 largest life insurance companies (ranked by total direct premiums) operating in Ontario in 1983 received 67.1% of the total premiums in the province (see Table 3 for a list of the companies and their respective shares of the Ontario market). While this figure indicates a relatively high level of concentration in the life insurance industry in Ontario, it should be kept in mind that the life companies compete not only with one another but also with all other financial institutions in the market for personal savings. Thus from a broader perspective, there is a high degree of competition.

The 10 largest property and casualty insurance companies operating in Ontario in 1983 received 42.6% of the total premiums in the Ontario market (see Table 4 for a list of the companies and their respective shares). In the property insurance market, the 10 largest firms (ranked in terms of their property insurance premiums) received 35.4% of the premiums. In the automobile insurance market, the 10 largest received 49.4% of the premiums; and in the liability insurance market, the 10 largest received 47% of the premiums.

Foreign Ownership

Foreign-controlled firms play a more dominant role in the general insurance segment than in the life insurance segment. For example, in 1983, 3 of the 10 largest life companies in Ontario were foreign-controlled and they received 21% of the total premiums received by the 10 largest. In 1984, 8 of the 10 largest general insurance companies were foreign-controlled and they received 72% of the total premiums received by the 10 largest.

INDUSTRY TRENDS

Trends: Life Insurance

Since 1967 there has been a significant shift of personal savings out of life insurance into pension funds and deposit-taking institutions. On a Canada-wide basis, life insurers' share of the financial assets of all Canadian financial institutions has declined from 17.6% in 1967 to 11.1% in 1984. In order to compete, life insurance companies have shifted gradually from an insurance function to more of a savings function. As a consequence, they have emphasized new products, RRSPs, annuities and mutual funds. (As noted above, an increasing proportion of the premiums of life companies has been coming from the sale of annuities.) Furthermore, in response to the trend towards shorter-term financial instruments, the legacy of the increased level and volatility of inflation and interest rates in the 1970s and early 1980s, life insurance companies have developed short-term annuities that closely resemble term deposits.

Key Factors

There are many reasons for the relative decline in the competitive position of life insurance companies in the market for personal savings. Among the more important ones are the following:

1. The life insurance market is reaching the saturation point in Canada.
2. The inflation and interest rates experienced during the 1970s and early 1980s diminished the competitiveness of the low yield life insurance product.
3. Smaller-sized families and two-income families have reduced insurance needs.
4. The distribution system for life insurance companies has proved to be less effective in reaching savers than the branches and sales organizations of other financial institutions.
5. The gradual erosion of the "four pillars" compartmentalization of the financial market has increased the degree of competition for life insurance companies.

Erosion of Four Pillars

Financial institutions are competing aggressively across the boundaries implicit in the four-pillar system, seeking the business of the same customers by providing the same or similar services. The Ontario Task Force on Financial Institutions noted in its Final Report that "the financial services industry (is) not organized into discrete sectors in which institutions perform ..... only their core function, but rather (the) industry (is) organized into discrete markets for specific financial products offered by a wide range of financial institutions ..... Financial institutions are able to provide financial services which do not fall within the core functions because of the broadly defined legislative powers which such institutions have and their ingenuity in using these powers to enlarge their scope of activities." Diversified financial institutions have become a common feature across Canada. In some cases, life insurance companies are part of a financial conglomerate; in others, they own directly mutual fund companies, investment counselling and portfolio management firms, and/or property and casualty insurance companies.

Trends: General Insurance

The general insurance industry in Ontario, Canada and world-wide is a highly competitive and cyclical industry. The industry goes through a 6 to 8 year underwriting cycle. During the profitable phase of the cycle, companies relax underwriting standards and cut prices. These moves set the stage for the loss phase of the cycle. During this phase, standards are tightened and premiums are increased significantly. The industry is currently in the latter part of the loss phase of the cycle. Consequently, customers are facing substantial rate increases and partial withdrawal of coverage in some lines of insurance, particularly in the liability areas.

Key Factors

The latest loss phase has been exacerbated by the move to cash flow underwriting that prevailed during the high interest period of the late 1970s and early 1980s. The near abandonment of prudent underwriting standards and substantial entry into the world-wide reinsurance market led to record underwriting losses. Hence the capacity of the industry has declined relative to demand, and the problem has been compounded by the withdrawal of many reinsurers from the liability market. Standard and Poor's, in its Industry Survey of the general insurance industry, has predicted that the available property-casualty insurance may fall short of demand on a global basis by $62 billion over the next three years.

INDUSTRY OUTLOOK

Problems

The provincial and federal regulatory systems have lagged behind the dramatic changes in the financial industry. The recent failure of several financial institutions, including four property and casualty insurance companies that operated in Ontario, demonstrated the inadequacy of the present regulatory regimes in ensuring the stability of financial institutions and anticipating and containing the new risks being assumed.

The liability insurance market is a particular problem area with sharply increasing rates and hard to find coverage especially in the following areas: consumer products with more than 20% of sales in the U.S.; professional liability; directors' and officers' liability; day care and old age homes; municipalities; and pharmaceutical companies. Adding to the problems is the increasing lack of interest by European reinsurance companies in all North American liability business.

The life insurance market, as distinct from the annuities side of the industry, appears to have reached the saturation point in Ontario and the rest of Canada. Thus, there is little growth potential domestically for life insurance.

There are also problems on the distribution side of the life insurance market in Ontario. Many agents and brokers are not qualified to sell a diverse range of complex, new products. Moreover, the attempts by life insurance companies to develop new distribution systems through networking and/or diversification are being resisted by the licensed agents and brokers who have a vested interest in maintaining the present system.

Opportunities

The major initiative to promote the growth, competitiveness and innovativeness of the general insurance industry in Ontario is the creation of an Ontario Insurance Exchange. The contraction in available capacity world-wide and concerns about the stability of some unlicensed, off-shore reinsurance markets provide an opportune time to establish such an exchange.

The five major Canadian life insurance companies have given the Canadian industry an excellent reputation abroad. This creates an opportunity for other Canadian life insurers to capitalize on this reputation and move aggressively into foreign markets. Despite the saturation of life insurance in the Canadian market, life insurers may still be able to grow in line with the growth rate of personal savings in Canada if they develop competitive, new products and distribution networks.

TRADE IN INSURANCE

Interprovincial

In 1984, total life insurance and annuity premiums were distributed as follows among the five principal regions of Canada: Ontario - 43%; Quebec - 26%; Prairie provinces - 16%; B.C. - 9%; Atlantic provinces - 6%. In the general insurance segment, the breakdown of premiums by region for 1984 was as follows: Ontario - 43%; Quebec - 26%; Prairie provinces - 18%; B.C. - 6%; Atlantic provinces - 7%. (The breakdown for the general insurance premiums excludes the operations of the four provincial government insurance companies. These companies received $1.5 billion in direct premiums, approximately 15% of the total direct premiums for the industry in 1984.)

The 10 largest, Canadian-controlled, life insurance companies (ranked by premium income in Ontario) with their head-offices in Ontario received $2.02 billion in premiums from their business in the rest of Canada. (Their Ontario premiums were $2.04 billion. The data are for 1983.) The other Canadian-controlled companies with head-offices in Ontario received another $200 million in premiums from their business in the rest of Canada.

International

Canadian life insurance premiums have a greater propensity to do business abroad than Canadian general insurance companies. At the end of the second quarter of 1985, the assets held by the life insurance companies for business placed outside of Canada accounted for 28% of the total assets of these companies. By comparison, the assets held by the general insurance companies for business placed outside of Canada accounted for only 2% of their total assets. This difference is explained to a considerable extent by the relatively greater dominance of foreign-controlled companies in the Canadian general insurance market.

The five largest (ranked by total direct premiums in the U.S.) Canadian-controlled, Ontario-based life insurance companies received $2.16 billion in premiums for their U.S. business and another $1.73 billion in premiums for their business in the rest of the world in 1984 (see Table 5). Manufacturers Life ranked 59th and Sun Life ranked 78th among the 125 largest foreign investors in the U.S. (in terms of revenues) at the end of 1983.

In the general insurance field, the net premiums received by federally-registered, Canadian companies for business placed outside of Canada totalled $176 million in 1984. This total compares with the $1.88 billion in net premiums received by these same companies for their Canadian business. These companies received 27% of the net premiums for Canadian business placed by all federally-registered companies. The remaining 73% was received by foreign-controlled companies. (These figures exclude the premium totals for provincially-incorporated, general insurance companies and the four provincial government insurance companies. As a result, the ratios may provide a reasonable approximation for the relative importance of foreign-controlled companies in the Ontario general insurance market.)

Barriers to Trade

The primary impediments to Canadian life insurance companies' efforts to enter into or expand in certain foreign markets, primarily outside the OECD group of countries, are restrictions on investment; difficulties in obtaining work permits and licenses for new products; and exchange controls. There are similar impediments facing Canadian general insurance companies. However, they are less export-oriented. As a result, these companies will have difficulty in serving the needs of multinational enterprises because of their lack of a world-wide capability.

REGULATORY ENVIRONMENT

Existing Regulatory Environment

Canada's financial system has evolved with a structure characterized as "four pillars": chartered banks, trust and mortgage loan companies, life insurance companies and investment dealers. There are other kinds of financial institutions as well that do not fall neatly under any one of the above four pillars. These institutions include property and casualty insurers, pension and mutual funds, and government agencies providing financial services. Under present federal and provincial legislation, only life insurance companies can underwrite life insurance and issue life-contingent annuities.

Federal insurance legislation (Canadian and British Insurance Companies Act and Foreign Insurance Companies Act) applies to all federally incorporated companies and all non-resident companies transacting business in Canada.

These companies, in addition to holding a certificate of registry issued under federal legislation, must be licensed in each province in which they operate. (Provincial licensing of federally registered companies has never been withheld.) Provincially incorporated insurance companies are not subject to federal legislation. These companies can operate across Canada as long as they apply for and receive licenses in each province in which they wish to operate. Insurance agents and brokers are subject to licensing requirements and/or the regulations established by provincial regulatory authorities only.

Objectives of Regulation

Federal legislation is primarily geared towards ensuring the solvency and stability of insurance companies. In order to ensure financial soundness, the legislation controls entry into the industry; and establishes investment rules and sets standards for the composition of the asset portfolios and minimum acceptable surplus ratios of insurance companies. Provincial legislation is also geared towards ensuring the solvency and stability of provincially incorporated insurance companies. In addition, this legislation supervises the rights of policyholders and their relationships with insurance companies.

Other Relevant Aspects of Regulation

Not more than 10% of the shares of federally incorporated life insurance companies (stock not mutual companies) can be registered in the name of any one non-resident, and not more than 25% of the shares can be registered in the name of non-residents in total. There are no foreign ownership restrictions on the formation of new companies by non-residents. Federally incorporated, Canadian-controlled companies are restricted by the federal acts in the types of businesses they can operate in foreign jurisdictions.

In Ontario, the Registered Insurance Brokers Act (1980) provides the Registered Insurance Brokers of Ontario (this is not a government agency) with the authority of registering and governing the activities of insurance brokers. According to the Report on the Financial Feasibility of an Ontario Insurance Exchange, "the RIBO Act contains certain prohibitions regarding licensing and acquisition which effectively restrict the ability of international insurance brokers to carry on business in Ontario". Furthermore, life insurance agents in Ontario cannot be licensed to sell mutual funds unless there is a common ownership or agreement which ties life insurance companies and mutual fund dealers.

Direct Government Participation

1. Canada and Quebec Pension Plans;
2. Workmen's Compensation;
3. Canada Deposit Insurance Corporation;
4. Export insurance through the EDC;
5. health insurance plans;
6. loan guarantees through a large number of programs;
7. unemployment insurance;
8. CMHC insuring mortgages against default;
9. Manitoba Public Insurance Corporation;
10. Saskatchewan Government Insurance;
11. Insurance Corporation of B.C.;
12. Regie de l'Automobile du Quebec.

Bill 75 in Quebec

The Ontario Task Force on Financial Institutions pointed out in its Final Report that "recent developments and initiatives in other jurisdictions have brought about a demand for changes in the regulation of insurance institutions and increased powers." Bill 75 threatens the complete breakdown of the current four-pillar system. This bill provides the potential for life insurance companies incorporated in Quebec to provide the services of all financial institutions. (See Appendix A for a brief description of some of the key features of Bill 75). According to representatives of Manufacturers Life, the government of Quebec focussed on life insurance companies to expand the financial services base of the province and make Quebec an important financial centre because the government had little or no leverage over banks and trust companies.

GOVERNMENT ASSISTANCE

Aside from the legal requirement that licensed drivers have insurance, and hospitals and schools have liability insurance, there are no special programs directed at the general insurance industry. The principal incentive for the life insurance industry is the deferral of personal taxes on income accruing on life insurance products. This tax advantage of life insurance products has been neutralized to a considerable extent by the dividend tax credit, the $1,000 investment income exemption, and the $500,000 capital gains exemption. The life insurance industry also benefits from the special tax treatment of various actuarial reserves. For example, during the first two quarters of 1985, life insurance companies in Canada paid a total of $51 million in income taxes on income of $467 million (a tax rate of 11%).

GOVERNMENT POLICY PROPOSALS

In the past year there have been three government reports containing proposals for restructuring the present regulatory system for all financial institutions. These reports are the federal government Green Paper on financial institutions, the Commons Finance Committee (Blenkarn) Report, and the Final Report of the Ontario Task Force on Financial Institutions.

The Green Paper emphasized the following principles for better serving the public interest through the regulation of financial institutions in Canada:

1. improve consumer protection;
2. strictly control self-dealing;
3. guard against abuses of conflicts of interest;
4. promote competition, innovation and efficiency;
5. enhance the convenience of options available to customers in the marketplace;
6. broaden the sources of credit available to individuals and businesses;
7. ensure the soundness of financial institutions and the stability of the financial system;
8. promote international competitiveness and domestic economic growth;
9. promote the harmonization of federal and regulatory policies.

The Ontario Task Force Report stated that "the demand of the public for, and the perceived need to ensure confidence, and hence stability, make financial institutions a special and different form of enterprise. Participation in the industry must be regarded as a privilege, carrying with it substantial responsibilities. The granting of that privilege must ensure that public confidence in the financial system is safeguarded. In formulating our recommendations, our fundamental premise has been that public confidence in the solvency of the financial system should be regarded as paramount". (See Appendix B for a comparison of the proposals on issues of importance to the insurance industry.)

INDUSTRY RECOMMENDATIONS

Canadian Life and Health Insurance Association CLHIA

1. Life insurance companies be allowed to create or acquire subsidiaries in any line of business subject to a single overall limitation on such investments not exceeding 15% of total assets of the parent companies.

2. Life insurance companies be allowed to engage in networking without restrictions.

3. Life insurance companies be allowed to engage in financial leasing and issue debt instruments to raise funds.

4. The quality criteria for investment rules should be replaced with an exceptions approach.

5. The government of Ontario should not impose a sales tax on life insurance premiums because it may result in various states in the U.S. retaliating under their existing reciprocity legislation and imposing a comparable tax on the premiums earned by Canadian companies operating under their jurisdictions.

6. The establishment of a reinsurance exchange be given serious consideration.

7. The extraterritoriality regulations that apply on the foreign operations of Canadian life insurers be removed to permit Canadian companies to compete on an equal basis with U.S. companies in the U.S. and other foreign markets.

TABLE 1

INSURANCE INDUSTRY: SELECTED FINANCIAL STATISTICS, CANADA; 1ST AND 2ND QUARTERS, 1985

	LIFE INSURERS	ACCIDENT AND SICKNESS	PROPERTY AND CASUALTY
	($ millions)		
Premiums	$5,318	$1,260	$4,111
Commissions	377	66	637
Salaries	492	80	298
Net income	416	34	208

Source: Statistics Canada, Financial Institutions, Second Quarter, 1985, (Cat. 61-006)

TABLE 2

INSURANCE PREMIUMS: TYPE OF COMPANY AND CLASS OF INSURANCE, ONTARIO; 1983

LIFE INSURANCE	
Life Companies (direct premiums)	$3,526.9 millions
Fraternal Societies (premiums)	32.9
Mutual Benefit Societies (dues,fees)	0.7
Total	3,560.5
PROPERTY/CASUALTY INSURANCE	
General Insurance Companies (direct premiums)	3,408.7
Farmers' Mutual (net premiums)	59.7
Total	3,468.4
ACCIDENT & SICKNESS (direct premiums)	1,197.5
REINSURANCE (net premiums)	501.1
Grand Total	$8727.5

TABLE 3

TEN LARGEST LIFE INSURANCE COMPANIES IN ONTARIO; 1983 *

COMPANY	NATIONALITY	PREMIUMS	MARKET SHARE
1. Mutual Life	Canadian	$332.3 ****	9.4%
2. London Life	Canadian	314.1	8.9
3. Sun Life	Canadian	301.3	8.5
4. Manufacturers Life	Canadian	280.0	7.9
5. Canada Life	Canadian	272.0	7.7
6. Great-West Life	Canadian **	197.3	5.6
7. Standard Life	Foreign **	182.1	5.2
8. Metropolitan Life	Foreign	170.3	4.8
9. Confederation Life	Canadian	169.9	4.8
10. Prudential Assurance	Foreign **	148.3	4.2

* Ranked by total direct premiums in Ontario.
** Canadian head-office not located in Ontario.
**** Ontario business only; $ millions

Source: Superintendent of Insurance, Ontario, Annual Report.

TABLE 4

TEN LARGEST PROPERTY/CASUALTY INSURANCE COMPANIES IN ONTARIO; 1983 *

COMPANY	NATIONALITY	PREMIUMS	MARKET SHARE
1. Co-Operators General	Canadian	$250.5 ***	6.8%
2. Royal Insurance	Foreign	215.0	5.9
3. Economical Group	Canadian	191.4	5.2
4. State Farm	Foreign	175.5	4.8
5. Pilot Insurance	Foreign **	135.0	3.7
6. General Accident	Foreign	128.3	3.5
7. Allstate	Foreign	121.9	3.3
8. Phoenix Continental	Foreign	120.0	3.3
9. Commercial Union	Foreign	114.7	3.1
10. Zurich Insurance	Foreign	107.1	2.9

*, **, ***: See Table 5.

Source: Stone and Cox, The Brown Book.

TABLE 5

PREMIUMS: FIVE MAJOR CANADIAN LIFE INSURANCE COMPANIES, CANADA, U.S., REST OF THE WORLD; 1984 *

COMPANY	CANADA	U.S.	REST OF WORLD
	($ millions, Canadian)		
Manufacturers Life	$634	$933	$602
Crown Life	281	492	494
Confederation Life	760	295	178
Sun Life	903	288	273
Canada Life	639	151	180

* Selected on the basis of U.S. premiums.

Source: Submission of Manufacturers Life to Ontario Legislative Committee on Free Trade.

APPENDIX A

KEY FEATURES OF BILL 75

1. In-house businesses that insurance companies incorporated in Quebec can engage in without obtaining prior ministerial approval:

   - life and health insurance and annuities;
   - administering, as trustees, proceeds from insurance or annuity contracts;
   - administering, as trustees, funds of RRSPs;
   - financing insurance and annuity premiums;
   - financial leasing of equipment;
   - real estate management;
   - marketing products of other financial institutions.

2. In-house businesses companies can engage in by obtaining prior approval:

   - any lawful business; e.g. deposit-taking, underwriting of government and corporate securities, stock/commodity trading, real estate brokerage, transfer agent and registrar, fiduciary and trustee services.

3. Businesses that insurance companies can conduct through subsidiaries:

   - no restrictions; no prior approval;
   - investments in subsidiaries subject to ceilings expressed in percentages of life company's assets.

APPENDIX B

PROPOSALS FOR REGULATORY CHANGE

1. Diversification:

Green Paper

- no expansion of in-house powers except networking;
- upstream financial holding company (FHC) structure required for all stock life insurance companies;
- FHC limited to owning Canadian-regulated financial firms;
- mutual life insurers allowed to diversify through financial subsidiaries or downstream FHC subject to 5% of assets in the aggregate and 2% per subsidiary;

Blenkarn Report

- expanded in-house powers allowing life insurers to engage in networking, leasing, factoring, commercial and consumer lending up to 15% of assets; and carry on limited trusteeship functions with respect to funds payable under annuity and insurance contracts;
- precise choice of corporate diversification structure left to each financial institution;
- investments in financial and ancillary business subsidiaries not limited to specified percentages of assets or capital of parent company;
- investments in non-financial subsidiaries limited to 5% of assets in the aggregate and 2% of assets per subsidiary.

Ontario Task Force

- ownership links among financial institutions operating under different legislation only through FHC;
- does not support insurance companies' being able to acquire downstream subsidiaries in unrelated businesses;

- entry requirements into insurance industry should be made more stringent.

2. Ownership restrictions:

Green Paper:

Financial Institution	Ownership Restrictions	
	Domestic	Foreign
C banks	none	10%-25% on de novo and existing companies
Life insurance companies	none	none on de novo; 10%-25% on existing companies
FHC	none	same as for life insurance companies

Blenkarn - one set of rules for all financial institutions regardless of nationality;

Domestic Asset Size	Ownership Limits
Under $10 billion	100%
$10 - $20 billion	75%
$20 - $30 billion	50%
$30 - $40 billion	25%
Over $40 billion	10%

- holding companies' assets to include all controlled financial firms;
- 5 year divestiture period;
- principle of reciprocity to apply to foreign-owned

entities.

Ontario Task Force - encourage development of widely-held, rather than closely-held, financial institutions;
- regulatory authorities should favour, when approval is sought for new charters, applications by widely-held institutions.

3. Networking:

- general support, although the Ontario Task Force wants regulatory approval of networking arrangements and public disclosure of such arrangements.

4. Investment Rules:

- general agreement for adoption of " prudent man rule" or portfolio approach to replace existing rules.

5. Other:

Green Paper - consideration to permitting mutual insurance companies to issue subordinated debentures to invest in downstream subsidiaries;
- direct writing property/casualty insurance companies not be permitted to place more than 50% of reinsurance with reinsurance companies not authorized to do business in Canada.

Blenkarn - mutual life insurance companies be permitted to issue preferred shares;
- all life insurance companies be permitted to issue subordinated debentures.

Ontario Task Force - creation of industry compensation funds for protection of policyholders; (Note: The general insurance industry has established such a fund under the auspices of the IBC.)

- maintain role of independent agents and brokers;
- permit Farmers' Mutuals to own downstream property and casualty companies that are stock companies.

MANAGEMENT CONSULTING

DEFINITION

Management consultants counsel chief executives and other senior members of enterprises on their basic managerial problems. These problems are associated with the goals, objectives, strategy, organization, operation, and procedural and technical aspects of the enterprise or institution. The scope of management consulting activities is indicated by the eight fields that the Institute of Management Consultants of Ontario (IMCO) has identified as areas of competence within the industry:

- production management;
- marketing management;
- human resource management;
- financial management and accounting;
- information management;
- physical distribution;
- economics; and
- strategic planning.

Statistics Canada defines "Offices of Management and Business Consultants" (1970 SIC 867) to include business consultants, efficiency experts, management consulting services, consulting economists, personnel management consultants, actuarial consultants, public relations counsellors, customs consultants and customs tariff specialists. There is general consistency between the Statistics Canada and industry definitions of management consulting, although industry participants exclude customs tariff consultants and public relations counsellors from management consulting while including some activities included by Statistics Canada within computer services (SIC 853). The focus of this sector profile is on management consulting as defined by industry participants. Where available, Statistics Canada data on SIC 867 will be presented to approximate the industry.

INDUSTRY TRENDS AND STATUS

Special data obtained from Statistics Canada show that Ontario employment in SIC 867, measured by full-year equivalent person years, increased from 10,822 in 1978 to 15,090 in 1983.[1] This is an increase of 39 per cent, substantially greater than the five per cent increase in employment recorded during the same period by the whole economy (excluding public administration and defence). Between 1978 and 1983, the number of firms in the industry increased from 2,754 to 3,285.

The management consulting industry is composed of small and large firms, with relatively few mid-sized participants. Small firms include many independent management consultants, very small firms of up to five professionals, and small management consulting firms of up to about 20 professionals. Large management consulting firms, which may employ 100 or more professionals are often affiliated with the major audit companies, as is the case for Woods Gordon, Stevenson Kellogg Ernst & Whinney, The Coopers and Lybrand Consulting Group and Touche Ross Management Consultants. Other large management consulting firms, such as DMR and Associates Ltd., Mercer/Hickling-Johnston, and Towers Perrin Forster and Crosby, are best known for their expertise in technical areas such as computer consulting or actuarial benefit consulting, rather than general management consulting.

Data on the membership of the Institute of Management Consultants of Ontario can be used to indicate the structure of the management consulting industry.[2] Half of the 800 members of IMCO are independents or professionals within small practices of five or fewer people. Most of the remaining members work for the large firms. It is a widely shared perception within the industry that during the last decade the small "boutiques" have increased their share of the management consulting market at the expense of the large "department store" firms. The continual emergence of new firms, and their competitive success, has contributed to this perception.

Most management consulting firms are Canadian-owned partnerships. This is also true of the large audit-related firms, although the audit firms in turn are typically associated with one of the "Big 8" international networks of audit firms. Through these connections, the large Canadian audit-related management consulting firms are associated with management consulting firms in the U.S. and other countries. There are a few subsidiaries in Canada of large U.S. and UK consulting firms, such as New York-based McKinsey. Even in these cases, however, there is usually substantial ownership by the Canadian partners.

KEY ECONOMIC FACTORS

In the 1970's and 1980's, employment in the management consulting industry increased at a considerably more rapid rate than was the case for the Ontario economy as a whole. The increased demand for management consulting services during this period is in part attributable to the increase in the level of competition faced by Canadian firms as a result of trade liberalization and the expansion of Japanese manufacturers. A trend increase in the complexity of business management, and in particular the opening up of applications for computer technology, encouraged the use of management consultants. As well, during this period, Canadian management became increasingly well educated and aware of the potential contribution of professional management consultants. The recession of the early 1980's slowed demand for management consultancy services, but also encouraged companies throughout the economy to spin off management functions as independent firms, creating an infusion of new small firms within the management consultant industry.

The structure of the Ontario management consulting industry suggests that the most competitively-sized firms are either quite small or quite large. Independent consultants and small firms are often started by individuals who have gained experience working for large management consulting companies. Entry into the industry is relatively easy and individuals may work as independent consultants or with a few partners or increase the size of their small firm to as many as 20 professionals. Beyond this point, it appears that administrative difficulties in ensuring quality control of the service provided make firm expansion difficult. The competitive advantages of the small firms are lower overhead costs, the ability to ensure quality and service commitments because of the involvement of the principal of the firm in project work, the flexibility and willingness to bear risk of the independent consultant and the quality of expertise of the consultant in a particular niche. Independent and small consulting companies tend to serve the general management consulting needs of small businesses and the specialized needs of larger businesses in particular niches.

The association of many of the large management consulting companies with the large audit firms is indicative of synergy which sustains the competitiveness of each. In addition to overlaps of expertise related to financial management, management consulting firms benefit from referrals by their associated audit firms of potential clients for business management advice. Medium-sized and smaller accounting and auditing firms may also provide management advisory services and to this extent supply the mid-sized segment of the management consulting industry. Other competitive advantages of the large management consulting firms are the full range of services they provide, their ability to deploy resources so as to build up expertise in a particular field or develop presence in a particular market and the risk aversion of potential clients seeking advice from well known firms. Large firms generally serve large and mid-sized clients. Mid-sized clients are an important market segment since many of these firms lack the full range of in-house management expertise.

OUTLOOK

Participants in the management consulting industry generally expect it to grow somewhat faster than the economy as a whole during the next decade. Growth is not anticipated to be explosive, and participants do not appear to be as optimistic as might be expected given past trends. Nevertheless, management consulting is considered to be a growth industry based on a continuation of the factors which promoted its expansion during the last 15 years.

ONTARIO INDUSTRY STATUS IN OUTSIDE MARKETS

The Canadian Association of Management Consultants, which includes most of the large management consulting firms, provides statistics on its members which are indicative of activity patterns. Within Canada, the Ontario market accounted for 43 per cent of CAMC member billings in 1984. In the same year, 41 per cent of professional staff employed by CAMC firms resided in Ontario. Both the Ontario share of the domestic market for management consulting (as indicated by CAMC statistics on billings by province) and the Ontario share of Canadian employment by CAMC firms have declined in recent years relative to the mid to late 1970s.

International exports and imports of management consulting services are limited. Statistics on CAMC firms indicate that about four per cent of billings were earned outside Canada in 1984, a decline from nine per cent in the years 1976-78. There is some indication that this proportion is lower for the large audit-related management consulting companies, and correspondingly higher for some other members of the CAMC.

Trade in management consulting services is inhibited by the high cost of travel and accommodation. As a personal service often delivered on-site to the client, travel is a significant cost of an exported project. The international relationships of large management consulting firms through their associated audit partners affect international trade and management consulting services. Referrals are made between affiliated firms, so that a Canadian firm would service the subsidiary of a U.S. company based on the referral of a U.S. management consulting company affiliated to the same international network of audit firms. Similarly, the Canadian management consulting firm would refer business opportunities in the United States to its associated U.S. management consulting firm. These practices serve to reduce both exports and imports of management consulting services. At the same time, these international affiliations do provide some opportunities for secondment based on specialized expertise between countries.

Industry views on the potential for Canadians to increase their exports of management consulting are mixed. On balance, the assessment is that there is "some" unrealized potential. The relative lack of sophistication of Canadian industry inhibits the development of world class consulting expertise and the difficulty of establishing a reputation in a foreign market inhibits all exports of management consulting services. In other OECD countries, markets are already served by established domestic companies, and a Canadian management consultant must overcome its lack of reputation and the relative unfamiliarity of its client list. However, it is also pointed out that current fee structures are lower in Canada than in the U.S., providing a competitive advantage, and that the U.S. markets immediately south of Toronto, Winnipeg and Vancouver are accessible by consultants from those cities more easily than from major U.S. centres such as New York. Where travel expenses are a major cost component, this could provide the basis for a competitive advantage. Exports of Canadian management consulting expertise are also likely to increase as Canadian manufacturers expand exports and establish foreign subsidiaries.

It is a commonly held view in the management consulting industry that the large firms are better positioned than the small consulting companies to service export markets. In general, success in export markets requires the Canadian consulting company to develop expertise in a particular niche. The large firm is able to deploy its resources so as to build world class expertise in a particular area and then undertake the costly process of developing a market presence in export markets. The large firm is also able to develop its expertise in a few areas, enabling it to diversify its risks in the event of a downturn in demand for a particular type of service. Large firms such as the audit-related management consultants can use their international affiliations to facilitate the marketing of their expertise.

REGULATORY ENVIRONMENT

The management consulting industry is relatively unregulated in Ontario. A wide range of people enter the industry with various backgrounds and degrees of commitment to the industry. Transient and unqualified members of the industry create a problem for professional management consultants in that the reputation of industry as a whole is diminished. Such issues led to the formation of the Institute of Management Consultants of Ontario in 1966. IMCO now represents over 800 individual members, who must meet certain education and experience requirements. Regular members of IMCO are permitted to identify themselves as a "Certified Management Consultant" (CMC). This designation was legally recognized by the Ontario Government in 1983. Ontario was the first government in the world to provide legislative protection for the designation of Certified Management Consultant. However, IMCO does not have the power to restrict entry of non-members into the management consulting industry and clearly only a minority of industry participants are in fact members of the Institute. Management consultants who are not members of IMCO claim that the CMC designation is not requested by clients.

ASSISTANCE CURRENTLY RECEIVED

Governments do not provide significant support to the management consulting industry, although some assistance is available in aid of exports. The federal Program for Export Market Development (PEMD) will subsidize the pre-contractual personnel and transportation costs incurred in making a bid to obtain a contract for the provision of consulting services. Supplementing PEMD, Ontario's Export Success Fund, administered by the Ontario International Corporation, will provide a forgiveable loan on a cost-shared basis to a maximum of $50,000 to management and specialist consultants to conduct pre-feasibility studies for international clients, prepare proposals and post performance bonds. Loans, repayable if successful, are available for new or expanded export activity only; they are not available to maintain existing business.

The management consulting industry benefits indirectly from assistance provided to a number of other industries in the form of subsidized management consulting. The federal government's principal program of industry assistance, the Industrial and Regional Development Program (IRDP), provides one-third to one-half the cost of hiring qualified consultants for studies on product and process innovation, the establishment of new production in disadvantaged regions, the modernization and expansion of existing manufacturing operations, and marketing. Government policies directed towards particular industries have included provision for the subsidization of management consultants. The Canadian Industrial Renewal Board's program to revitalize the textile, clothing and footwear industries, for example, normally requires that a consultant determine a restructuring plan for an applicant company. The Canadian Book Publishing Development Program subsidizes to a maximum of $25,000 up to 60 per cent of the cost of analysis by consultants of every aspect of a publishing firm's operational activitities.

British Columbia, through the Management Assistance Program (MAP), provides financial assistance for the hiring of a consultant to study a specific management or planning aspect of the operations of a small company. This program is intended to introduce small businesses to the use of management consultants as a development tool. If the applicant has previously used consultants, it will not be funded. Assistance takes the form of a subsidy of 50 per cent of the cost of the consultant to a maximum of $5,000. This program has been in place for more than eight years and had a 1985-86 budget of $133,000. Similar programs are provided by Saskatchewan and Nova Scotia, and a related program is provided by Alberta.

STATED POLICY WISHES

The industry has a continuing interest in the procurement of management consulting services by government. The industry generally favours a policy of contracting the purchase of consulting services out to private firms where possible and the restriction of the number of firms invited to submit proposals to about six. Ontario is given good marks for its procurement practices, especially when compared to either the federal government or local municipalities. In the area of information management consulting, however, Ontario is considered to rely more on its in-house resources than Quebec. The industry argues that this has contributed to the growth of such Quebec-based companies as DMR and Associates and has retarded the growth of Ontario firms.

Policy towards trade in mangement consulting is a matter of increasing significance. The industry argues for free trade in management consulting services. In part, this reflects the view of the Canadian industry that current immigration regulations do not effectively inhibit the entry of U.S. consultants, whereas the administration of these regulations by the U.S. does constitute a barrier to Canadian exports. If free trade is not possible, the industry argues for a tightening of Canadian immigration administration to a level comparable to that of the U.S. so as to establish a "level playing field".[3]

Small firms throughout the economy have difficulty in identifying and evaluating a potential management consultant. Industry participants express mixed views on whether there is a role for government in bringing both sides of the market together. Some participants argue that this is a real gap which government might go some way to filling by increasing the awareness of the small business community of management consulting or by creating a clearing house between those providing and those demanding management consulting services. Other participants, however, argue that the government should keep its hands off the industry allowing consulting firms and clients to find each other through word of mouth, repeat business, and referrals by audit and accounting firms.

ENDNOTES

1. Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

2. The special data run from Statistics Canada referred to elsewhere in this report includes statistics on full year-equivalent employment levels by firm size in SIC 867. The size distribution of employment indicated by this special data is misleading in the case of this industry, however, since employment in the management consulting firms associated with the large audit practices has, in most instances, been attributed to SIC 861, Offices of Accountants. For example, employment in the management consulting firm Woods Gordon is combined with that of the associated chartered accounting firm, Clarkson Gordon, in SIC 861. As a result, the Statistics Canada special data understate the role played by larger management consultants in the management consulting industry.

3. The Canadian Association of Management Consultants, Towards Freer International Trade in the Services of Management Consulting Firms, a submission to the Government of Canada on the occasion of negotiations for freer trade with the United States.

PERSONNEL AGENCIES

DEFINITION

Statistics Canada defines "Employment Agencies and Personnel Suppliers" (1970 Standard Industrial Classification 851) as:

> Establishments primarily engaged in listing employment vacancies and in selecting, referring and placing applicants in employment. Included also are establishments primarily engaged in supplying personnel temporarily or permanently on contract.[1]

This definition excludes employment and personnel services provided by the federal and provincial governments.

The Employment Agencies and Personnel Supplier Industry (or Employment Placement Industry, for short) can be viewed as having four major components, the characteristics of which are depicted in Chart I below.

There are two primary functions of employment services. The first is to provide a labour exchange, where buyers and sellers of labour are brought together. Labour exchange services provide information on job opportunities and prospective employees, and act as intermediaries for buyers and sellers. The major providers of these services are employment agencies, which include executive search firms.

The second function of this industry is the provision of temporary personnel. An employment service firm will hire and train personnel and then assign them to organizations requiring temporary services. It is unlike a labour exchange, in that the temporary firm actually employs its personnel.

Another important aspect of this industry is that both the private and public sectors are active participants. The private sector provides the service for a fee and is primarily interested in "white collar" placements. The public sector provides the service free of charge and is primarily interested in finding employment for minorities, youth, women and low-skilled labour.

Chart 1: Employment Placement Services

	Labour Exchange	**Temporary Services**
Private Sector	. intermediaries . matches job vacancy with job seeker . regulated . charges fees for services . deals primarily with "White Collar" placements . primarily consists of employment agencies which also includes executive search firms	. non-intermediation . unregulated . provides temporary employment services . primarily clerical . provides training . less costly than full-time equivalents
Public Sector	. intermediaries . provides matching services as well . unregulated . free service . deals extensively with "Blue Collar" placement	. non-intermediation . unregulated . provides temporary employment personnel for government agencies . competes with private sector for government procurement

INDUSTRY STATUS

Number of Establishments and Employees

According to unpublished Statistics Canada data,[2] there were 737 firms providing employment placement services in Ontario in 1983. (Table 1, page 288) employment, measured in full-year equivalents, amounted to 20,530.

The employment placement industry represented 0.3% of total firms and 0.6% of total employment in Ontario in 1983 (see Table 2, page 288).

Composition of Industry by Firm Size

The employment placement industry is primarily composed of small firms with fewer than 20 employees. Of the 737 firms in Ontario, 549 firms or 74 per cent have fewer than 20 employees (Table 1). Only 41 firms or 6 per cent of all firms in Ontario have more than 100 employees.

Although small firms represent the majority of all firms, they are not the major employer in the industry. Firms with under 20 employees employed about 12 per cent, whereas firms with over 500 employees employed about 29 per cent of industry employees in Ontario in 1983.

Industry Output

Due to the highly competitive nature of this industry, very little information is available as to its size and level of output. Individual firms are unwilling to disclose their revenue or market share. In fact, the National and Ontario Chapters of the Association of Professional Placement Agencies and Consultants (APPAC) restrict their activities to monitoring the number and location of their members only. However, from a number of discussions with industry observers, it can be estimated that revenues in this industry in Ontario were in the range of $100 million to $125 million in 1985.

As well, little information is available as to the size of Canada's temporary help market. Some industry observers estimate that it generated about $500 million in revenue in 1985. Interestingly enough, the U.S. recently estimated its market to be about $5 to $6 billion.

Industry Growth Trends, Births and Deaths

According to unpublished Statistics Canada data, the number of employment agencies in Ontario grew by only 0.8 per cent between 1978 and 1983, from 731 to 737. The number of employees increased from 20,442 in 1978 to 20,530 in 1983, an increase of only 0.4 per cent.

From 1978 to 1983, there were 412 new firms in the Ontario employment placement industry. Over the same period there were 406 deaths. Given that there were 731 firms in 1978, these birth and death figures suggest a relatively high turnover rate for this industry. This is in part due to the fact that there is considerable competition within this industry.

Regional Distribution of Activity

Table 3 (page 289) provides a regional breakdown of employment agency offices in Ontario as of October, 1985. Almost 90 per cent of all Ontario offices are located within South-Central Ontario. Eastern Ontario is a distant second with 7 per cent. The distribution of Canada Employment Centres is provided in Table 4 (page 290).

Due to the nature of the industry in providing office personnel and executive search assistance to government and industry, it is not surprising that most employment agency offices are located within large urban centres. The data in Table 5 (page 291) support this observation. About 70 per cent or 564 of 795 Ontario employment agency offices are located within Metropolitan Toronto. When the surrounding municipalities are included, this figure increases to 635, representing about 80 per cent of all offices. Ottawa is a distant second with 43 offices or 5 per cent. Hamilton and London follow with 19 (2%) and 18 (2%), respectively. It is clear from these data that this industry provides a very specialized service to corporate management and administration.

Profile of Industry Clientele

Employment agencies have increasingly dealt with clerical, administrative, technical, sales, managerial and executive positions (i.e. primarily "white-collar" occupations) rather than manual labour positions. This shift toward white collar occupations is a direct result of the establishment and expansion of Canada Employment Centres (CECs), which provide employment placement and counselling services to the long-term unemployed and minorities.[3] One factor contributing to this separation is the fact that CEC services are free, whereas private services are based on a fee for service.

A sample survey[4] of Ontario's largest executive search firms reveals the following distribution of their clientele in 1985:

Client's Business Activity	**% of Clients 1985**
Financial Services	18
Communications & Technology	17
Industrial Products	15
Public Sector & Professional Services	13
Consumer Products	11
Retail, Food Services, Hospitality	11
Resources/Energy Sector	9
Professional Services & Other	5

Executive search firms serve job-seekers as well. However, according to unpublished data from the Ministry of Labour,[5] only 4 per cent of those seeking work in 1984 used executive search firms. Accordingly, the majority of executive search firms' clients are corporations looking for senior or office personnel.

The distribution of clientele for temporary help firms is only available for the U.S. industry. However, given that the two largest firms in the United States are also the two largest in Canada, it would be fair to assume similar distributions in Canada:[6]

Temporary Service Activity	**% of Employment 1980**
Clerical Services	60
Technical Services	20
Medical Services	12
Industrial Services	9

Of the above four services, medical services has been the fastest growing segment of the temporary help industry.

Industry Concentration

Although market share is a tightly guarded secret in the industry, it is common knowledge that one firm dominates the executive search industry. Currently, The Caldwell Partners of Toronto accounts for between 25 and 30 per cent of all business in Ontario. However, a number of highly specialized executive search firms appear to dominate particular market niches.

The degree of industry concentration within the temporary service industry is also generally unknown. However, the dominant players are Manpower Temporary Services, Kelly Services, Office Overload and Temporarily Yours. These four firms operate about half of the temporary service offices located within Ontario.[7]

Foreign Ownership

Canadian executive search firms are currently being threatened by foreign competition. Over the past few years, only two foreign subsidiaries have operated in Ontario -- Spencer Stuart, the fourth largest U.S. firm, and Boyen Associates, the sixth largest U.S. firm (see Table 6, page 292). Recently, Korn/Ferry International has opened up a Toronto office. Korn/Ferry, the world's largest executive search firm, is expected to report $60 million in revenue for 1985-86. In the 10 months since it opened in Toronto, Korn/Ferry has generated $1.5 million in revenue.[8] In the near future, Russell Reynolds (second largest U.S. firm), Heidrick & Struggles (third largest) and Egon Zehnder (one of the top twenty) are expected to open offices in Canada.

The top temporary service firms in Ontario are U.S. subsidiaries. Manpower Temporary Services and Kelly Services are the two largest temporary help firms in the United States. They are also the two largest firms in Canada. However, because many of their offices in Canada have been franchised to Canadian citizens, foreign ownership appears very low. For example, 95 per cent of Manpower Temporary Services is Canadian-owned.[9] However, given the contractual obligations under their franchising agreement, a large proportion can be considered foreign controlled.

KEY ECONOMIC FACTORS

The development of the employment placement industry occurred as a result of the need to match job vacancies with individuals seeking new employment opportunities. This need in turn arose from the inability of the labour market to clear spontaneously, due to employment dislocations caused by rapid industrial adjustment.[10] The greater the rate of industrial adjustment and change, the greater the need for labour exchanges as well as for retraining and relocation. A number of key economic factors will affect the need for labour exchanges in the future, such as:

Technological Change

New technology will have a profound effect on employment within the manufacturing and service sectors. As manufacturing increasingly becomes capital intensive,[11] there will be a shift in demand for labour among various sectors. This will entail a greater need for information and employment placement services.

Internationalization of Trade

There is a growing corporate need for management capable of capitalizing on new market opportunities around the world. Many corporations are seeking senior managers with overseas experience. Most of the largest U.S. executive search firms are expanding internationally in order to keep up with the demands of their corporate clients.

Increased Competition and Uncertainty

In order to lower operating costs and to remain more flexible, many firms are taking advantage of temporary help services by adopting a contracting out policy. It has been shown that employee costs can be reduced by almost 20 per cent by employing temporary help as opposed to full-time employees.[12] Temporary help also allows a firm to adjust more quickly to swings in the business cycle.

INDUSTRY OUTLOOK

Two general trends appear to be emerging in the employment placement industry. The first relates to the growth in demand for senior management recruiting, the second relates to temporary services.

Executive Search Industry

Industry observers expect a significant increase in the demand for executive search services over the next few years. The U.S. Association of Executive Search Consultants has estimated that revenues over the last three years have increased between 30 and 40 per cent.[13] This growth is expected to continue in the foreseeable future. Similar growth is expected to occur in Ontario. At the same time, however, competition should intensify as foreign firms enter the Ontario market.

Many executive search firms have developed extensive computer data banks on potential executives in order to respond quickly to corporate requests. For example, the largest U.S. executive search firms claim that one out of every three executives they place was already listed in their files.[14] This gives the larger and more computerized firms an advantage over the smaller, less specialized firms.

An interesting situation has arisen which may plague the large executive search firms in the future. The problem arises when an executive search firm interviews its client's corporate management to get a more accurate picture of the executive they are looking for. However, before the client agrees to these indepth interviews, they usually require the executive search firm to agree to refrain from raiding their executives in the near future. In the U.S. this agreement is usually for two years.

As an executive search firm grows and acquires more clients, its pool of potential executives shrinks as more and more corporations become off-limits. As a result, many of the larger executive firms are attempting to develop fewer but more frequent customers. Nevertheless, there are a number of highly specialized and successful small executive search firms, especially in the health care field.

Temporary Service Industry

A rapidly growing segment of the employment placement industry is temporary services. It has experienced rapid growth since the early 1970s; U.S. temporary services annual payroll grew by 32 per cent per year in real terms from 1970 to 1984.[15] (see Table 7, page 293)

This extraordinary growth is expected to continue as an increasing number of firms employ temporary help services more often. According to the U.S. Administrative Management Society, 9 out of 10 businesses have used temporary help services at one time or another.[16] While this ratio is probably lower for Ontario, the U.S. figures do provide important insights regarding future prospects for this industry.

EXTERNAL MARKETS

Interprovincial Activity

Conversations with industry experts indicate that more than 50 per cent of all Canadian temporary service firms are located in Ontario. Given that about 80 per cent of temporary service firms provide executive search services as well, it can also be assumed that the majority of executive search firms are located in Ontario as well.

International Activity

Canada's employment placement industry has virtually no presence in international markets. Aside from having various memberships in international associations, such as the International Confederation of Personnel Services Associations, Canadian firms do not penetrate foreign markets. Should Canadian corporations require international placement services, they can obtain this service through foreign subsidiaries that operate in Canada.

Canadian controlled firms have difficulties operating abroad due to their small size and lack of specialization, as well as their slowness to adopt computer technology. These factors have provided the large U.S. firms with a competitive advantage in Canada.

Method of Foreign Operations

There are basically two types of foreign operations in Canada. The first is the wholly-owned subsidiary of a foreign firm. The second is a foreign firm selling franchising rights in Canada. In the second case, while each individual operation could be owned by a Canadian citizen, it could nonetheless be controlled by the parent firm. For example, a franchised operation in Canada could be restricted from competing internationally.

Barriers to Trade

There are two general impediments to trade encountered by executive search and temporary service firms. First, some European countries prohibit permanent employment agencies and/or restrict the activities of temporary service firms.[18] Second, most countries have stringent immigration laws which impede the ability of executive search firms to place foreign executives in the host country. According to the International Confederation of Personnel Services Associations,[19] these immigration requirements raise costs significantly enough to deter executive search firms from seeking executives abroad. Both Canada and the United States require "work permits" before allowing foreign workers to enter the country.[20]

Labour mobility is also restricted in Canada by both federal and provincial incentives/restrictions. For example, Quebec imposes "severe" restrictions on construction workers entering Quebec.[21] Ontario has no such restrictions.

REGULATORY ENVIRONMENT

As noted earlier, there are two major components to the employment placement industry -- employment agencies, which include executive search firms, and temporary service industries. These two major components operate under different regulatory environments in Ontario.

Ontario Employment Agencies Act[22]

Ontario's Employment Agencies Act governs the operations of private employment agencies located in Ontario. Employment agencies are grouped into four classes. Class A are firms that find employees for employers at no charge to employees. Instead, all fees are charged to the employer. These firms represent about 95 per cent of all employment agencies in Ontario (see Tables 8 and 9, pages 297 and 298). There are no ceilings placed on the fees these firms can charge to the employers.

The rules governing Classes B, C and D protect the job-seeker by limiting the amount the firm can charge them. This limitation was deemed necessary, since these job-seekers have been exploited by employment agencies in the past. Class B firms find employment for homemakers or sitters; Class C for sitters only; and Class D for homemakers or homemakers and sitters only.

Unregulated Activity

Unlike other countries and provinces, Ontario does not specifically regulate the activities of temporary service firms. Instead, these firms fall under the general provisions of Ontario's Employment Standards Act. Concern has been expressed regarding the compensation package temporary employees receive relative to their permanent counterparts.

GOVERNMENT ASSISTANCE

Both the federal and provincial governments assist job-seekers in finding employment. Most of this assistance is directed to the unemployed. The federal government operates 116 offices in Ontario with a total staff of 2,410 employees to provide employment placement and counselling services to those unemployed (see Table 4).

The federal centres charge no fee to either the employer or employee, and are primarily involved in assisting less qualified personnel. Most employment agencies do not see these federal centres as competitors, as the private firms are not too eager to service this lower-end market, generally preferring the more lucrative markets, such as senior management.

Governments are also involved in the provision of temporary services. For example, in 1968 Ontario's Civil Service Commission established the Government of Ontario Temporary Employment (GO TEMP) Program, to provide ministries with temporary employees. The Canadian Federation of Temporary Help Services views GO TEMP as a major competitor in the very large public service market in Ontario. During 1984-85, the Recruitment Branch of the Civil Service Commission handled more than 15,000 employment enquiries, ranging from temporary help to permanent placements within the provincial government.

Federal Programs

The federal government is active in providing specialized services to targeted interest groups in society. Some of the services provided include the following:[23]

- Canada Employment Centres for Students, which provided more than 411,000 temporary and short-term placements in 1984-85 from 450 centres across Canada.
- Specialized Youth Units (SYU), which provide special assistance to economic and socially disadvantaged youth between the ages of 15 and 19 years.
- The International Exchange service for Canadian students and young adults participating in international exchange programs.
- Special assistance to place disabled persons in temporary or permanent positions.
- Native Employment services are offered to assist Canadian natives in obtaining employment.

Government of Ontario Programs

Ontario has a number of its own programs to provide placement services for special interest groups. For example:

- In 1974, Ontario introduced its Affirmative Action Program for women in the Ontario Public Service. Achievements made to date include a 6.2 per cent reduction in the wage gap between the average salaries of male and female employees and a 7.3 per cent increase in female representation among senior executives.[24]
- On October 22, 1985, the Minister of Skills Development announced Ontario's FUTURES program. This program provides, among other things, counselling and placement services to young people under 25 years of age who are unemployed.

POLICY RECOMMENDATIONS

Government Proposals

The federal government is currently considering a number of recommendations from the Wallace Commission of Inquiry into Part-time Work.[25] Particular recommendations that would significantly affect the temporary help industry include proposals to broaden the definition of part-time work to include temporary employment; to require part-time workers to be eligible for pensions and fringe benefits on a prorated basis with full-time employees; and to ensure that part-time workers receive equal pay for work of equal value, regardless of the average numbers of hours worked. Ontario currently excludes temporary employees from its definition of part-time workers.

Industry Proposals

The Canadian Federation of Temporary Help Services submitted a response to the Wallace Commission regarding part-time employment.[26] The Federation suggests that it would be in the best interests of the industry and its employees if the industry were allowed to regulate itself. According to the Federation, "All members adhere to a strict Code of Ethics ensuring that fair and equitable relationships are maintained with all employees and customers."[27]

The Canadian Association of Professional Placement Agencies and Consultants similarly advocates a self-regulatory approach.

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APPENDIX A: STATISTICAL TABLES

Employment Agencies and Personnel Suppliers by Firm Size, Number of Firms and Employment for Ontario, 1983 **Table 1**

Size of Firm	Ontario Firms (#)	Ontario Firms (%)	Ontario Employees (#)	Ontario Employees (%)
Under 5	368	49.9	645	3.1
5 to 19	181	24.6	1,759	8.6
20 to 49	99	13.4	2,978	14.5
50 to 99	48	6.5	3,050	14.9
100 to 500	36	4.9	6,163	30.0
Over 500	5	0.7	5,935	28.9
TOTAL	737	100.0	20,530	100.0

Source: Statistics Canada, "Special Computer Run". Business Microdata Integration and Analysis. January, 1986.

Employment Agencies and Personnel Suppliers by Firm Size, Number of Firms for Ontario, 1983 **Table 2**

Size of Firm	Total Firms (#)	Total Employees (#)	Industry Firms (#)	Industry Employees (#)	Industry Firms as % of Total Firms (%)	Industry Employment as a % of Total Employment (%)
Under 5	192,398	254,731	368	645	0.2	0.3
5 to 19	43,232	390,565	181	1,759	0.4	0.5
20 to 49	11,010	300,500	99	2,978	0.9	1.0
50 to 99	4,193	239,349	48	3,050	1.1	1.3
100 to 500	3,782	545,274	36	6,163	1.0	1.1
Over 500	1,315	1,659,669	5	5,935	0.4	0.4
TOTAL	**255,930**	**3,390,087**	**737**	**20,530**	**0.3**	**0.6**

Source: See Table 1.

Ontario Employment Agencies by Region as of October 11, 1985 **Table 3**

Ontario Economic Region	Employment Agency Offices Number	Per Cent
South Central	705	88.7
Eastern Ontario	56	7.0
South Western	26	3.3
Northern Ontario	4	0.5
Unidentified	4	0.5
Total	**795**	**100.0**

Source: Ministry of Labour Employment Agencies : List of Trade Names and Addresses as of October 11, 1985.

Distribution of Canada Employment Centres **Table 4**

Ontario Regions	Offices		Employment	
	(#)	(%)	(#)	(%)
Southern*	44	37.9	880	36.5
Eastern**	26	22.4	428	17.8
Northern	22	19.0	319	13.2
Greater Metropolitan Toronto	24	20.7	783	32.5
Total	**116**	**100.0**	**2,410**	**100.0**

Note: Actual delivery, year round points of service.

* Hamilton, London, Windsor and North to Barrie (i.e. Golden Horseshoe), excluding Toronto.

** Oshawa to Cornwall, including Ottawa, North to Pembroke.

Source: Department of Employment and Immigration. Toronto Regional Office, January 30, 1986.

Ontario Employment Agencies by Metropolitan Area as of October 11, 1985 **Table 5**

Metropolitan Area	Employment Agency Offices Number	Per Cent
Greater Metropolitan Toronto (includes surrounding municipalities)	635	79.9
Metropolitan Toronto	564	70.9
Ottawa	43	5.4
Hamilton	19	2.4
London	18	2.3
Kitchener	13	1.6
Burlington	8	1.0
St. Catherines	7	0.8
Brampton	7	0.8
Cambridge	6	0.8
Total Ontario Offices	**795**	100.0

Source: See Table 3.

Table 6

LARGEST RETAINED EXECUTIVE SEARCH FIRMS IN THE UNITED STATES

(estimated '84 data for U.S. offices only:
international ranking in a future issue)

	A Fee Billings ($millions)	B Number of Professionals	C Number of Offices	D Avg Billings per Office ($millions)	E Number of Placements	F Avg Billings per Professional ($1000)
1. KORN/FERRY	35.0	106	16	2.2	N.A.	330
2. RUSSELL REYNOLDS	23.0	75	10	2.3	N.A.	306
3. HEIDRICK & STRUGGLES	19.0	58	10	1.9	N.A.	328
4. SPENCER STUART	15.2	42	9	1.7	N.A.	362
5. WARD HOWELL	8.5	31	7	1.2	370	274
6. BOYDEN	7.0	27	14	.5	342	259
7. LAMALIE	6.7	21	6	1.1	N.A.	319
8. PAUL R RAY	6.6	26	8	.8	155	254
9. PEAT MARWICK MITCHELL	6.5	65	13	.5	N.A.	100
10. HANDY	5.5	14	1	5.5	N.A.	392

Source: Executive Recruiter News. July/August, 1985. p.10

Table 7

Exhibit I
Temporary Services Annual Payroll: 1970-1984

Year	Temporary Payroll (Current $'s)	%Change	Temporary Payroll (Constant $'s)	%Change
1984[b,c]	5,639.6	+24.1	2,557.4	+21.4
1983[b,1]	4,544.2	+24.3	2,107.4	+19.2
1982[b]	3,656.8	+5.0	1,767.4	- 1.0
1981	3,483.8	+11.8	1,785.7	+ 2.2
1980	3,117.2	+11.1	1,747.3	+ 1.8
1979	2,805.4	+ 4.2	1,716.9	+31.0
1978	1,970.8	+34.0	1,310.3	+24.8
1977	1,470.5	+36.0	1,049.6	+28.4
1976	1,081.4	+26.8	817.4	+20.5
1975	853.0	-10.7	678.1	-18.3
1974	955.5	+44.5	830.1	+32.5
1973	661.4	+30.6	626.3	+23.7
1972	506.3	+17.3	506.3	+16.6
1971	431.6	-21.2	434.2	-23.5
1970	547.4	N/A	567.8	N/A

All payroll data in millions of dollars.

Sources: 1970-1981, U.S. Bureau of the Census, County Business Patterns;
1982-1984, Office Specialists, regression analysis.

a. GNP Deflator used to factor temporary payroll from current to constant dollars, 1972 = 100.

b. Estimated based on regression analysis. Because it was observed that in the year following a recession the regression equation overstated payroll compared to actual data (1972, 1976, 1981) the predictive variable was lowered by 25,000 workers for the recession/post recession years of 1982 and 1983.

c. Based on female employment in SIC 736 for February, 1984, and engineering employment for April, 1984.

Source: Steven A. Wasser. "Economics of the Temporary Help Service Industry." Contemporary Times. p.13.

Table 8

Ontario Employment Agencies Licenses, 1971 to 1984

New Licenses, 1971-84

Classes	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
A	83	112	98	165	132	148	154	169	177	183	56	153	131	128
B	0	3	2	1	2	2	2	0	4	10	6	11	2	1
C	1	0	1	0	0	0	0	0	0	1	0	0	0	0
D	5	15	10	6	1	2	8	4	5	9	2	5	0	2
Total	89	130	111	172	153	152	164	173	186	203	64	169	133	131

Renewed Licenses, 1971-84

Classes	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
A	314	303	347	381	476	518	554	563	581	571	724	638	638	664
B	11	10	11	9	9	9	10	11	9	5	10	10	10	10
C	0	0	0	0	0	0	0	0	0	1	1	1	1	1
D	40	33	38	36	33	29	23	24	21	15	21	19	19	15
Total	365	346	396	426	518	556	587	598	611	592	756	668	668	690

Total Licenses, 1971-84

Classes	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
A	397	415	445	546	608	666	708	732	758	754	780	791	769	792
B	11	13	13	10	11	11	12	11	13	15	16	21	12	11
C	1	0	1	0	0	0	0	0	0	2	1	1	1	1
D	45	48	48	42	34	31	31	28	26	24	23	24	19	17
Total	454	476	507	598	671	708	751	771	797	795	820	837	801	821

Source: Ministry of Labour, Annual Report. Various years 1971-72 to 1984-85.

Table 9

Distribution of New Licenses by Class, 1971-84

Classes	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
A	93.3%	86.2%	88.3%	95.9%	86.3%	97.4%	93.9%	97.7%	95.2%	90.1%	87.5%	90.5%	98.5%	97.7%
B	0.0%	2.3%	1.8%	0.6%	1.3%	1.3%	1.2%	0.0%	2.2%	4.9%	9.4%	6.5%	1.5%	0.8%
C	1.1%	0.0%	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%
D	5.6%	11.5%	9.0%	3.5%	0.7%	1.3%	4.9%	2.3%	2.7%	4.4%	3.1%	3.0%	0.0%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Distribution of Total Licenses by Class, 1971-84

Classes	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
A	87.4%	87.2%	87.8%	91.3%	90.6%	94.1%	94.3%	94.9%	95.1%	94.8%	95.1%	94.5%	96.0%	96.5%
B	2.4%	2.7%	2.6%	1.7%	1.6%	1.6%	1.6%	1.4%	1.6%	1.9%	2.0%	2.5%	1.5%	1.3%
C	0.2%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.1%	0.1%	0.1%	0.1%
D	9.9%	10.1%	9.5%	7.0%	5.1%	4.4%	4.1%	3.6%	3.3%	3.0%	2.8%	2.9%	2.4%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Change in Total Licenses by Class, 1971 84

Classes	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
A	n.a	4.5%	7.2%	22.7%	11.4%	9.5%	6.3%	3.4%	5.6%	-0.5%	3.4%	1.4%	-2.8%	3.0%
B	n.a	18.2%	0.0%	-23.1%	10.0%	0.0%	9.1%	8.3%	18.2%	15.4%	6.7%	31.3%	-42.9%	-8.3%
C	n.a	-100.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-50.0%	0.0%	0.0%	0.0%
D	n.a	6.7%	0.0%	-12.5%	-19.0%	8.8%	0.0%	-9.7%	-7.1%	-7.7%	-4.2%	4.3%	20.8%	10.5%
Total	n.a	4.8%	6.5%	17.9%	12.2%	5.5%	6.1%	2.7%	3.4%	-0.3%	3.1%	2.1%	4.3%	2.5%

Source: Ministry of Labour, Annual Report. Various years 1971-72 to 1984-85.

APPENDIX B

GOVERNMENT REGULATION OF EMPLOYMENT AGENCIES IN OTHER JURISDICTIONS

Description	Pennsylvania	New York	Massachusetts	Illinois	Michigan	Wisconsin	Alberta	British Columbia
LICENCE								
Counsellor	Registration	Manager only		X	Registration			
Examination of Counsellor	X			X	Manager			
Agency	X	X	X	X	X^3	X	X	X
Investigation of operator	X	X	X	X	X	X		
Examination of operator	X				By Manager			
Bond Required	X	X	X	X	X	X		
RECORDS								
Register of All Applicants Visiting Agency	X	X	X			X	X	X
Referral Record	X	X	X	X	X	X	X	X
Job Order Register	X	X	X	X	X	X	X	X
Advertisement Record	X					X		
Placement Record	X				X		X	
Receipts, contracts	X	X	X	X	X	X		
Character/employment References of applicants	X	X	X					
Other[1]	X	X	X		X	X		
POSTING								
In Other Languages		X	X					
Fees	X	X	X			X		
Regulations	X	X	X	X		X		X
Human Rights Provisions	X	*						
License	X			X		X		

APPENDIX B (Continued)

GOVERNMENT REGULATION OF EMPLOYMENT AGENCIES IN OTHER JURISDICTIONS

Description	Pennsylvania	New York	Massachusetts	Illinois	Michigan	Wisconsin	Alberta	British Columbia
ACCESS/ENFORCEMENT								
Audit	Annual					X		
Inspection	4-6 weeks	At least once in 6 months	At least once in 6 months		X	X	X	X[5]
Statistical Reports Mailed Regularly to Department	X		X			X		
Investigation on initiative of Department	X	X	X	X	X	X		X
or on Complaint of Private Party	X	X	X	X	X	X	X	X
Warrant Required		X						
Warnings without penalties	X	X		X	X		X	X
Hearing to Determine Violations or Verify or Deny Complaints or Charges of Bad Moral Character or Misconduct	Pre-licence only	X[2]	X	X	X		X	
Summary Violation/Court	X	X	X	X	X	X		
Adjudication				X				X
Appeal		X					X	X
DISCRIMINATION	X	*		X				Only under Human Rights Code: (X)[6]
SPECIFICALLY PROHIBITED IN								
Forms/Questions in Interview	X			X				
Job Orders	X			X				
Treatment of Applications				X				
Referrals				X				(X)
Filing systems				X				
Other (Advertising, testing, via cross-reference to Human Rights Law)	X	X			X	X[4]		

APPENDIX B (Continued)

GOVERNMENT REGULATION OF EMPLOYMENT AGENCIES IN OTHER JURISDICTIONS

Description	Pennsylvania	New York	Massachusetts	Illinois	Michigan	Wisconsin	Alberta	British Columbia
PENALTIES/REMEDIES								
Agency			X					
1.Fines or	X	X	X	X		X		X
Imprisonment of	X	X	X					
Operator/Officer(s)								
2.Suspension of Licence	10-90 days	X	X	5-30 days	X	X	X	
3.Revocation of Licence	1 year	3 years	3 years	may be perm.	X	X	X	
4.Damages to Victim			by suit	X		X		X
Manager, Counsellors								
1. Fines or Imprisonment	X	X	X	X			X	X
2. Loss of Licence or	X	X		X	X			
registration		Manager						
3. Restriction on continued employment in this industry	X			may be perm.				

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[1] Includes special records for nurses registries, theatrical/entertainment booking agencies, relationships with out of state supplying agencies, or fee negotiations, all of which vary from state to state.

* In New York State, only established firms with names which imply discrimination (e.g. Kelly Girls) must post full anti-discrimination sign; only sex discrimination is specifically prohibited in Employment Agency legislation.

[2] In New York State suspicion of "conspiracy" between employer or person and employment agency to violate E.A. statute is sufficient to launch investigation with powers to subpoena records, witnesses.

APPENDIX B (Concluded)

GOVERNMENT REGULATION OF EMPLOYMENT AGENCIES IN OTHER JURISDICTIONS

[3] In Michigan agencies are licensed by Class including a Class 4 for an artist's manager, which is regulated by specific requirements for contractual obligations such as semi-annual reporting by manager to client giving certified accountant's detailing of earnings and monies owed. Copies of these agreements must be on file with the Department of Licensing and Regulation.

[4] In Wisconsin licence renewal is subject to consideration by the Department of Industry, Labour and Human Relations of "whether the needs of all applicants for employment are being met without regard to age, race, color, sex, creed, national origin, ancestry, or handicap". Also testing of applicants "may be for job related skills only".

[5] Upon renewal application from new operator.

[6] (x) Indicates this area is regulated only under human rights legislation.

REAL ESTATE DEVELOPMENT

DEFINITION

The 1970 SIC listings classified the real estate development industry as

> "Establishments primarily engaged in owning and operating real estate or in developing or improving unimproved real property. Included in this industry are operators of non-residential buildings, apartment buildings, trailer sites of a "permanent" nature such as those near mines or construction projects, other dwellings and owners of agricultural, forest, mining, railroad, public utility and other kinds of real property which are rented out to operators. This industry includes establishments primarily engaged in sub-dividing and developing real estate."

This study will use this classification of the industry as it is the form for which data is most readily accessible. It is also the most appropriate, as in many cases, especially among the larger firms, the two functions of real estate developing and operating are often combined within a firm. They can be developers of industrial, commercial and residential buildings and complexes. The key factor here is the loose collection of skills, expertise, management and services defined as real estate development expertise. This expertise, when sold abroad, has helped Canada establish an international reputation in the area of real estate development.

INDUSTRY STRUCTURE AND STATUS

Number of Firms

77 real estate development firms are listed as headquartered in Ontario by the 1986 Real Estate Annual Directory of Public and Private Development Companies. This represents 54.6% of all real estate development companies in Canada.

According to the Business Microdata Integration and Analysis Computer run (Special Data) there were 7,135 firms functioning as real estate operators (SIC 737) in Ontario in 1983.* This represented 39 per cent of all real estate operators in Canada.

Number of Employees

The Special Data computer run reported that there were 42,978 full year equivalent (fye) jobs in Ontario for real estate operators in 1983. Ontario accounted for 41.2 per cent of total fye jobs in Canada.

Firm Size

The vast majority of these firms appear to be small businesses providing fewer than 20 fye jobs. These small firms accounted for 95.7 per cent of all firms in Ontario and 47.3 per cent of all fye jobs. The medium sized firms (20 - 99.9 fye) accounted for 3.6 per cent of all firms and 22.7 per cent of fye jobs. The large firms (100 + fye) accounted for less than 1 per cent of all firms but 30.1 per cent of all fye jobs. Similar to some other service industries, real estate development appears to be a sector in which there is a structural weakness in the mid-size category.

Economic Performance

According to Statistics Canada (61-207) the real estate development industry is a strong performer recording assets and revenues second only to the banks. In 1983 the Canadian real estate industry (which includes operators and developers) reported assets of $79.8 billion.

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* Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

The Canadian industry recorded an income of $18.68 billion in 1983. Given Ontario's share of employment and the number of firms, it can be estimated that this province accounts for roughly 40 - 55 per cent of total income. The major sources of revenue (52.9 per cent) was from real estate rental income. Approximately 28.4 per cent was from the sale of real estate products, and 3.9 per cent from real estate services. Other sources of income are commissions, bond interest, mortgage interests and dividends. Expenses in 1983, however, amounted to $19.16 billion. The major expenses were materials (23.9 per cent), other expenses (25.3 per cent), mortgage interest (14.5 per cent) and other interest (9.9 per cent).

The estimated value of construction in Ontario in the past few years is as follows.

Building Permits Issued in Ontario 1977-1985
($ Millions)

	Residential	Industrial	Commercial	Institutional & Govt.	Total
1985	4,886.4	880.6	2,075.0	550.6	8,392.6
1984	3,360.6	654.6	1,587.8	671.3	6,274.3
1983	3,250.5	435.3	1,026.8	637.3	5,349.9
1982	2,084.9	468.4	1,170.6	487.3	4,211.1
1981	2,935.3	784.1	1,291.1	419.1	5,429.6
1980	1,960.0	710.3	1,306.9	427.6	4,404.9
1979	2,373.5	576.4	1,032.1	344.5	4,326.5
1978	2,496.1	471.5	973.4	300.3	4,241.3
1977	2,609.4	443.8	711.3	410.8	4,175.2

Source: Building Permits. Statistics Canada 64-203, 1983, 1982, 1979

In 1985, Ontario accounted for 42.7 per cent of the total Canadian value of construction. This is the highest it has been in the past nine years. Ontario's share was increased steadily since 1980, when it's share was only 28.5 per cent of the total value of construction.

Ownership

According to the Special Data foreign ownership does not appear to be a cause for concern in this sector of the economy. Of the 7,135 firms listed by the Special Data, only 1.6 per cent were foreign owned in 1983. The majority of these foreign firms, 87.4 per cent were in the small business sector. Only 10 out of the 254 medium sized firms and 4 out of 54 large firms were foreign owned. Foreign firms accounted for 2.9 per cent of the fye jobs.

Clients

The clients of the real estate development industry vary as much as the products the industry produces. Clients range from individual house and condominium owners to renters of office space and shopping malls. Real estate development is undertaken in almost every sector of the economy, including industrial, agricultural, recreational, transportation, institutional, residential, commercial and even the military. Most developers have started in the residential sector and then expanded their operations to larger developments such as shopping malls and office towers.

In the past the movement and expansion of administrative and executive offices of industrial companies spurred growth. Future growth, however, is now expected to come from the service sector. It is noted in the Real Estate Annual Report that the clients in downtown office towers have increasingly become other service industries, especially those in financial services, accounting and law practices.

Births and Deaths

Between 1978 and 1983, 3,464 firms or 41.6 per cent of the 1978 firms ceased to operate according to the Special Data. In the same period 2,275 firms were established, which in 1983 accounted for 31.9 per cent of all firms. These changes resulted in the loss of 8,929 fye jobs and the creation of 6,593 fye jobs. The vast majority of these firms were in the small business category. Approximately 94.5 per cent of the firms which ceased to operate and 97.6 per cent of the businesses established were in the small business category. However, the firms in the midsize category, which accounted for only 4.5 per cent of all deaths of firms and 2.0 per cent of all new firms, represented 27.2 per cent of all fye jobs lost and 15.9 per cent of all new fye jobs.

Between 1978 and 1983, 33 out of the 78 large firms ceased to operate. However, this only resulted in the loss of 409 fye jobs, which represented only 4.6 per cent of all fye jobs lost in 1978. In the same period only 9 out of 54 were new firms, and this represented the addition of 13.1 per cent of new fye jobs in 1983.

Geographical Distribution

Not surprisingly the majority of firms listed in the Real Estate Annual Directory, (64 out of 77) are located in Toronto. There is only one firm listed in Northern Ontario, and that is in Sudbury. The remaining 12 firms are in Southern Ontario with a number of firms being located in Ottawa.

Industry Trends

- The number of firms has been steadily decreasing. The Special Data indicates that in 1978 there were 8,324 firms. This declined to 7,684 in 1981 and dropped slightly again in 1983 to 7,135 firms. This trend is evident in all firm size categories except large firms. In this category the number of firms increased by 3 between 1981 and 1983.

- Employment in fye jobs, decreased by approximately 7 per cent between 1978 and 1981. The midsize category accounted for 49 per cent of this decrease. By 1983 the number of total fye jobs had slightly surpassed the 1978 level. The midsize category however, continued to experience net declines.

- Foreign ownership did not prove to be an issue between 1978 and 1983. It continues to represent a very small portion of the industry, and accounts for few fye jobs. In 1978 foreign owned firms accounted for 2.6 per cent of all jobs. By 1983 it was 2.9 per cent.

- According to Statistics Canada data the assets and revenues of the industry have continued to increase in nominal terms. While it is still too early to draw any conclusions an interesting trend may be emerging in the composition of the sources of revenue. The share of income from real estate services has climbed from 2.6 per cent in 1982 to 3.9 per cent in 1983. While these changes are small, it is significant given the time frame. It could reflect a major change in the operations of real estate developers as they move away from selling products to a position where the sale of services are their major source of income. Rental income, and the sale of services are their major sources of income.

KEY ECONOMIC FACTORS AND INDUSTRY OUTLOOK

The Canadian/Ontario real estate development industry has, in the last 25 years, produced large and successful companies which can compete on an international scale. Among the factors which contributed to this success are the growth in demand for real estate products as a result of increased immigration since World War II, and the close working relationship between this sector and the banking industry. As a result large public companies emerged with the financial capability, technical expertise and management skills to allow them to undertake massive developments on an international scale.

A factor that plays a determining role in the performance of the real estate development industry is the direction of interest rates and inflation. The outlook for the real estate development industry is thus closely linked with that of the general economy. Low and stable interest rates and low inflation will promote further development. Constraints to growth, according to the Urban Development Institute are adverse economic conditions, the existence of urban plans or planning processes, rent controls, low population growth, prevailing trade patterns, transportation networks, voter attitudes to development, local content regulations and labour laws.

Unlike some service industries, the real estate development industry remains extremely vulnerable to the business cycle. This is particularly evident in the Special Data which traces the effects of the recent recession on the industry. Between 1978 and 1981 employment in this sector dropped significantly (by 7.1 per cent). As the recession receeded the number of employees rose 12.7 per cent between 1981 and 1983. Employment in 1983 stood 4.7 per cent higher than in 1979.

That the real estate development industry is closely linked to the business cycle is also evident in the fall in the value of construction between 1981 and 1982 from $5.4 billion to $4.2 billion in Ontario and from $18.7 billion to $12.8 billion in Canada. The impact of government policy, (e.g. MURBS) is evident in the sharp rise in the value of residential construction between 1980 and 1981. In Ontario the value of residential construction rose 49.8 per cent between 1980 and 1981. In the same period the value of all construction increased by 23.6%.

The Ontario industry is now growing due to declining interest rates, increased manufacturing activity and increased foreign investment, and it is expected that it will continue to do so in the near future. Ontario appears to have recovered from the recession, and now leads Canada in the value of new developments. Since the Canadian market is considered to be largely saturated, the bulk of real estate development activities will continue to take place largely outside the country, mostly in the United States. As exports of real estate development skills and services grow, so too will the export of anciliary services such as Canadian architectural expertise, consulting engineering skills, urban planning, and even Canadian materials.

STATUS IN OUTSIDE MARKETS

According to the Urban Development Institute, Canadian and Ontario real estate development firms have done exceedingly well abroad, particularly in the U.S. Most of the larger firms now have more than 50 per cent of their investments outside Canada. In 1980 Canadian investment in U.S. real estate amounted to $6 billion which, however, represented less than 1 per cent of total U.S. real estate. Projects include hotels, office towers, residential units, shopping centres, and leisure facilities. The vast majority of these developments were taking place in the south-western U.S., particularly Texas. The growth area for these firms continues to be in the U.S.

The success of Canadian firms in competing on an international scale can be attributed to several factors. The rapid growth of Canada as a result of immigration since World War II led to increased demand for the products of the real estate development industry. The existence of a large and national banking system meant that large firms could develop to meet the demand produced by a growing economy. Unlike other service industries, real estate development produces tangible and 'sizeable' assets which qualify as collateral for bank loans. Consequently, this sector developed unusually extensive connections with the Canadian banking industry. (note - the financial services area also includes real estate brokerage - e.g. A.E. Le Page and Royal Trust). As the Canadian banking industry and Canadian real estate industry have gone abroad together, these connections have continued to remain strong.

Specific constraints to growth of the international activities of the industry include nationalistic views which affect the potential decision-making process in particular countries, structure of the host country's banking industry, local content regulations, and local labour regulations, particularly in the area of licences and qualifications. Some of these constraints could be overcome through trade arrangements.

REGULATORY ENVIRONMENT

While the real estate development industry is not itself regulated it nevertheless remains an industry heavily affected by regulations. Real estate developers have to conform to planning acts, municipal regulations and standards which specify how, what and where a development takes place. Regulations such as rent controls and rules prohibiting the transformation of existing rental apartments into condominiums or other types of buildings also effect the real estate development industry.

ASSISTANCE CURRENTLY RECEIVED

According to Canadian Institute of Public Real Estate Companies the real estate industry receives no direct government assistance. Indirect assistance is however awarded through the various tax and other policies governments utilize to stimulate the construction/housing industry.

INDUSTRY POSITION

This sector is represented by a variety of industry associations. Among those which make representations to government are the Urban Development Institute, and the Canadian Institute of Public Real Estate Companies. In a brief to the Royal Commission on the Economic Union and Development Projects for Canada the Urban Development Institute identified the following areas as requiring government attention.

- Risk

  Stabilize the policy environment for the real estate sector. In particular, attempts should be made to avoid (1) abrupt changes in taxation policy; (2) volatile interest rates; and (3) other sources of policy uncertainty.

- Equity

  Increase the ease and attractiveness of raising equity for the projects that will generate foreign exchange income for Canadian firms.

- Management

  Encourage the professionalization (e.g. continued support of educational programs offered at university), and institutionalization of real estate development, financing and management.

- Benefits

  Encourage Canadian real estate developers to use their expertise to (1) redevelop, e.g. U.S. urban areas, and (2) act as leading edge entrants to the U.S. and other international markets for the other Canadian providers of goods and services. The benefits will be (a) increased employment, (b) increased purchases of Canadian goods and services and (c) creation of a strategically well positioned real estate sector. The overall image of Canadian products will be improved by these leading-edge, high quality developments.

- R&D

  Encourage joint research into building techniques while maintaining competition between Canadian firms.

- Smaller Operations

  Continue to create an environment where smaller operators can flourish. As larger Canadian companies are encouraged to expand internationally, smaller and medium sized companies should inevitably fill market gaps, provided legislation does not penalize them.

The chief concern of the Canadian Institute of Public Real Estate Companies (CIPREC) is Bill 51, which would entrench and expand rent controls. According to CIPREC the result of rent controls is a rental housing shortage, as developers withdraw from the market. CIPREC would like to see the abolishment of rent controls and instead direct subsidies to those who require it.

CIPREC would like less government intervention in the entire real estate development industry. In its view tax incentives which attempt to stimulate the housing industry destabilize the real estate development industry. The free market is regarded as the best regulator for the industry. Where regulation is required, CIPREC would like to see more co-ordination among the different levels of govenment and increased standardization in criteria for acquiring permits.

GOVERNMENT POLICY POSITION

Government policy makers use tax and other policies to develop the construction industry in order to stimulate the economy. These policies, have, however been generally regarded unfavourably by the real estate development industry as introducing uncertainty in a sector in which development requires long lead times. In Ontario, responsibility for the real estate industry is shared between the Ministry of Consumer and Commercial Relations and Housing. A major policy initiative presently underway relating to real estate development is the study by the Building Industry Development Board in the Ministry of Housing. Among other things, it is looking at reducing and rationalizing regulations in the construction and development industry.

Responsibility for this sector in the federal government rests with Canada Mortgage Housing Corporation (CMHC) and the Department of Regional and Industrial Expansion (DRIE). The Service Industries Branch of DRIE is now studying the sector in terms of the impact of a Canada-U.S. free trade agreement. So far, only a profile of the construction industry has been released.

TABLE 1

CANADIAN DEVELOPERS ARE PROPORTIONALLY LARGER THAN U.S. DEVELOPERS

(Total Assets at Book Value in Cdn. $ million)

	Canadian 1980	U.S. 1980	British 1980
Olympia & York	3,500 (est.)		
Cadillac-Fairview	3,000		
Trammell Crow		3,000+ (est.)	
Trizec	2,100		
Great-West Life Assurance	1,800		
Daon	1,600		
Gerald Hines		1,500-2,000 (est.)	
Oxford	1,400		
Bramalea	1,000		
Campeau	1,000		
Marathon	954		
Hamerson			778
Genstar R/E Assets	600		
Markborough	500		
Morguard Properties	503		
Rousse		433	

12 top Canadian developers vs. the three largest U.S. developers. Hamerson is a U.K. property company listed on the TSE. U.S. syndicating groups not included.

Sources: (1) p14 Goldenberg, Susan Men of Property, Personal Library
(2) Rannala, Harry Canadian Real Estate Industry
Merill Lynch Royal Sec., July 1983

BUILDING PERMITS ISSUED IN CANADA
ESTIMATED VALUE OF CONSTRUCTION IN CANADA
(Billions of $)

Year	Residential	Industrial	Commercial	Institutional & Government	Total
1982	6.1	1.1	3.5	2.1	12.8
1981	9.8	1.7	5.2	2.0	18.7
1980	7.5	1.9	4.3	1.8	15.5
1979	7.8	1.3	3.7	1.3	14.1
1978	7.6	1.1	3.1	1.4	13.1
1977	7.6	1.0	2.4	1.4	12.4
1976	7.5	1.0	2.5	1.2	12.2
1975	6.1	.9	2.3	1.3	10.6
1974	4.6	1.3	2.3	1.1	9.3
1973	4.8	.9	2.0	1.0	8.6
1972	3.6	.5	1.4	.9	6.5
1971	3.2	.5	1.1	1.0	5.7
1970	2.3	.5	.8	1.1	4.7
1969	2.4	.6	.8	1.1	4.9
1968	2.4	.5	.7	1.1	4.8
1967	1.9	.4	.7	1.0	4.1
1966	1.6	.5	.7	.9	3.7
1965	1.8	.4	.8	.8	3.8
1964	1.6	.4	.6	.7	3.3
1963	1.5	.3	.5	.6	2.8
1962	1.2	.2	.5	.6	2.5
1961	1.8	.2	.4	.4	2.2

* Numbers may not add due to rounding

Source: Statistics Canada #64-203

Sources

Statistics Canada, Corporation Financial Statistics 1983 (61-207)

Statistics Canada, Building Permits 1985, 1982, 1979 ((64-203)

Business Microdata Integration and Analysis: Statistics Canada Special Computer Run

Real Estate Development Annual 1985/86. August 1985

Creating A World-Class, Outward-Oriented Canadian Real Estate Industry. Submission by the Urban Development Institute to the Royal Commission on the Economic Union and Development Prospects For Canada. November 1983

Ron Daniels, Canadian Institute of Public Real Estate Companies. (CIPREC) 598-0694

Anne Drummond, Construction & Real Estate Section, Service Industries Branch, DRIE. Ottawa 954-2983

Building Industry Development Board, Ontario Ministry of Housing

SECURITIES INDUSTRY

DEFINITION

Statistics Canada 1970 Standard Industrial Classification Manual defines "Security Brokers and Dealers (including Exchanges)" as:

> Establishments primarily engaged in facilitating the exchange of securities (primarily long term certificates of ownership or indebtedness such as stocks and bonds). Included are brokers who act as agents in the exchange of securities which have been traded before but who take no title to property in the typical transaction, and dealers who buy and hold inventories of new securities until they are sold. The exchange or market at which the securities are traded is also included. Examples of establishments to be included are grain exchange, stock exchange, investment dealer, commodity futures broker, investment broker, foreign exchange establishment, security underwriter, investment analyst, investment counsellor.[1]

The 1980 SIC classification system categorizes the securities industry in much greater detail:[2,3]

1970 SIC	1980 SIC
705 Security Brokers and Dealers (including exchanges)	741 Security Brokers and Dealers:
	. 7411 Investment Dealers
	. 7412 Stock Brokers
	. 7413 Commodity Brokers
	742 Mortgage Brokers
	. 7421 Mortgage Brokers
	743 Security and Commodity Exchanges
	. 7431 Stock Exchanges
	. 7432 Commodity Exchanges

The following profile of the securities industry will centre primarily on the activities of the investment dealers and the stock exchanges.

INDUSTRY STATUS

Number of Establishments and Employees

According to special data obtained from Statistics Canada,[4] there were 308 firms in Ontario's securities industry (1970 SIC 705) in 1983. This represented about two per cent of total firms within the Finance, Insurance and Real Estate (FIRE) sector in Ontario.

In 1983, Ontario recorded 14,209 employees in the securities industry or approximately six per cent of total employment within FIRE.[5]

Composition by Firm Size

As depicted in Table 1 (see tables in Appendix), most firms within the securities industry have fewer than five employees (about 70 per cent of all firms in 1983). There were thirteen firms with over 500 employees in 1983, representing about four per cent of all firms. Many of the small firms consist of investment analysts and counsellors, whereas the larger firms consist of the big investment dealers and the Toronto Stock Exchange.

Compared to the rest of the FIRE sector, the securities industry has a large proportion of firms with more than 500 employees. For example, in 1983, the securities industry accounted for about 1.6 per cent of all FIRE firms with fewer than five employees. On the other hand, the securities industry accounted for more than 11 per cent of all FIRE firms with over 500 employees.

As depicted in Table 2, in 1983, two-thirds of all employees within the industry were employed by firms with over 500 employees. Small firms with fewer than 20 employees, on the other hand, accounted for just three per cent of total employment.

Industry Output

In 1984, the gross domestic product of the securities industry in Canada represented 1.6 per cent of total output for FIRE (see Table 3). Comparable figures are not available for Ontario.

Growth Trends in Employment and Output

The securities industry experienced considerable growth in employment from 1978 to 1983, with a recorded increase of about 87 per cent.[6] All size classes of firms shared in this rapid growth.

Growth in industry output has been slow compared to growth in employment. Real output in the securities industry increased 18 per cent from 1978 to 1983 (Table 3).

Industry Births and Deaths

From 1978 to 1983, there was a net increase of 34 firms in the Ontario securities industry, a 12 per cent increase. FIRE, on the other hand, had an overall decrease of 430 firms, or three per cent, over the same period. Growth in the number of securities industry firms primarily occurred in the size class of firms with fewer than five employees, which recorded a net increase of 24 firms.

Industry Concentration[7]

There were 98 member firms of the Investment Dealers Association and the Canadian stock exchanges in 1983. According to industry figures, the three largest investment dealers generated approximately 23 per cent of aggregrate Canadian securities industry revenues in 1983. The five largest firms generated 36 per cent of revenue. These concentration ratios are low relative to the Canadian banking industry, in which the five largest banks account for 90 per cent of the revenues of domestically controlled banks (i.e. Schedule 'A' Banks).

Foreign Ownership[8]

Until the early 1970's, foreign ownership of the Canadian securities industry was not an issue. In 1969, however, the acquisition of the Royal Securities Corporation Limited by a wholly-owned Canadian subsidiary of Merrill, Lynch, Pearce, Fenner and Smith Inc. caused a public inquiry into the ownership of Ontario's securities industry. In 1971, Ontario enacted regulations which restricted non-residents from owning more than 25 per cent of a securities firm, with no one non-resident to own more than 10 per cent. At the time, 26 registered firms did not comply with these new ownership restrictions; these firms were 'grandfathered'. Eight of the grandfathered firms were members of the Toronto Stock Exchange. Of these eight, three are currently registered. In 1971, the eight firms represented about 12 per cent of the capital of all TSE members. As of December 31, 1984, the comparable figure was about 9 per cent.

KEY ECONOMIC FACTORS

Domestic Competition among Financial Institutions

Domestic competition among the "four pillars" of the financial services sector -- banks, trust companies (and credit unions), insurance companies and investment dealers -- is resulting in greater diversification of their activities. For example, the Toronto Dominion Bank has established a discount brokerage service and is now negotiating with the Toronto Stock Exchange to connect directly to its trading floor.[9] The Royal Bank is moving in a similar direction. With greater competition among the four pillars, each pillar is being pressured to provide new products and services at lower costs.

Internationalization of Capital Markets

The internationalization of the capital markets is allowing Canadian corporations and governments to raise capital outside Canada. It is estimated that of the $56 billion of long-term debt issued by Canadian corporations over the last ten years, almost $27 billion or 50 per cent was placed outside of Canada.[10] Unless Ontario's investment dealers are competitive internationally, an increasing share of this activity could be handled by foreign dealers. From 1981 to 1983, the private sector used domestic lead investment dealers in 52 per cent of Canadian Eurobond issues; the public sector used domestic investment dealers in only 22 per cent of these issues.[11]

New Technology

New developments in communications and computer technology are having a profound affect on Ontario's securities industry. Investors are now capable of buying and selling securities anywhere in the world and can easily by-pass domestic investment dealers. Moreover, the operations of the stock exchanges are changing as well. There is less need for a central clearing-house, such as face-to-face trading floors, as dealer-to-dealer electronic transactions are currently available in the United States and Britain. The TSE's Computer

Assisted Trading System (CATS) is currently trading 52 per cent of TSE listings electronically, and is expected to grow in the future.[12] Further, to gain greater presence in international trading, the TSE has recently linked with the American Stock Exchange in New York and the Midwest Stock Exchange in Chicago. Now interlisted Canadian-based companies can trade internationally and be serviced by Canadian dealers.

INDUSTRY OUTLOOK

The activities of the securities industry are closely linked with the demand for equity capital and longer-term debt financing. Consequently, the securities industry tends to fluctuate with the stock markets. In fact, because of this cyclicality, securities firms themselves are not seen as stable investments. Because of the difficulty in predicting changes in the stock market, there has been no attempt to forecast future growth in this industry. However, in order for the industry to grow, a number of factors must be present:

- real growth in new public offerings;
- real growth in trading in the secondary markets;
- increases in the number of individuals owning stock; and
- increased domestic participation in international capital markets.

ONTARIO EXPORTS OF SERVICES

Interprovincial Trade

Ontario's securities industry is the major player in Canada's capital markets. As depicted in Table 4a, about 40 per cent of Canada's investment dealers' sales offices and registered representatives are located in Ontario. More important, more than 60 per cent of the head offices are located in Ontario (Table 5).

As depicted in Table 6, over 75 per cent of the total value of securities traded in Canada are traded through the Toronto Stock Exchange (TSE). Although this share has declined somewhat over the last few years, the TSE has steadily increased its share since the 1940's (see Chart 1). Marginal gains have been made by the Montreal Exchange (ME), due, in part, to price competition, new products and services and the Quebec Stocks Savings Plan (QSSP).

International Trade

Compared to those in the United States and Europe, Canadian investment dealers are small. Table 7 ranks Canada's investment dealers among the twenty largest dealers in the US. The largest Canadian dealer ranked just twenty-sixth. In fact, the entire Canadian industry ranked only tenth among U.S. dealers. Unless Canadian dealers acquire the necessary capital to underwrite large international issues, Canada will have great difficulty in capturing a greater share of the international market.[13]

Even with Canada's small investment dealers, it is possible for Canadian firms to capture particular market niches or to assist in obtaining capital through the international markets. At the present time, there are at least 12 Canadian firms or their affiliates with memberships on the New York Stock Exchange. In addition, there are 13 members of the Association of Canadian Investment Dealers in London, England.

There are 10 Canadian branch or affiliate offices in the United States and 27 in Europe and elsewhere (Table 5). In other words, about 6 per cent of Canadian registered investment dealers' offices are located outside of Canada, of which only 2 per cent are located in the United States.

Table 8 provides a breakdown of dealer commissions earned in both domestic and foreign markets. Over the 1983 to 1985 period, about 9 per cent of total commissions were derived outside of Canada, with 3 to 4 per cent in Europe; 1.5 to 2.5 per cent in the US; and 1.5 to 2.5 per cent in the United Kingdom. As depicted in Table 9, Canadian dealers obtained, on average over the 1982-84 period, about a 30 per cent higher commission rate in Canada than in foreign markets. The factors accounting for this difference could include variations in the mix of types of business undertaken in various markets.

Foreign Operations in Canada

There are basically two types of foreign operations in Canada: The 'grandfathered' non-resident owned investment dealers currently operating in Ontario, and non-resident owned firms in the exempt market of the securities industry. The exempt market is substantial and includes: i) commercial paper; ii) debt securities issued or guaranteed or purchased by a government, a chartered bank, a trust or loan corporation or an insurance company; and iii) trade in securities which have an aggregate acquisition cost to the individual purchaser of more than $97,000.[14]

From 1979 to 1983, exempt distributions (including exempt distributions through registered dealers) accounted for $21.7 billion or 50 per cent of the $43.5 billion of issued securities reported to the Ontario Security Commission (OSC).[15] Since not all exempt transactions are required to report to the OSC, this figure could under-estimate the true size of the exempt market. Both the OSC and the Investment Dealers Association of Canada (IDA) have recommended that the exempt market be subject to greater regulation.

Barriers to Trade[16]

Virtually all OECD nations impose foreign ownership restrictions on members of their domestic exchanges, varying from outright prohibition to specific procedural and administrative requirements which effectively ban attempts at joining or discourage applications. The effect of these restrictions is to force foreign firms to operate through domestic dealers. According to a report by the world association of stock exchanges, OECD countries where these restrictions are of a "direct concern" include: Italy, Australia, Sweden, Denmark, France, Germany and Japan. No reference is made to Canada or the US, in this particular report.

The United States is, however, criticized for having significant indirect barriers to trade in the securities industry. The separation of function among the four pillars of the financial services sector has created an impediment for some firms wishing to establish in United States. As many European countries have a unitary financial system, where banking and investment activity are integrated, European investment dealers wishing to establish in the US have difficulty in meeting all of the regulatory requirements. Given that Canada requires distinct financial services as well, the same barriers are likely to exist in Canada.

REGULATORY ENVIRONMENT

Generally speaking, both tax and regulatory legislation affect the activities of the securities industry. The securities industry competes with deposit taking institutions, such as the banks and trust companies, for savings. Either individuals will deposit their savings in a bank or they will invest their savings directly in a financial instrument via an investment dealer. The IDA has long complained that the overall tax and regulatory environment tends to favour deposit taking institutions. On the other hand, there are other regulations which tend to provide the securities industry with a captive market. For example, pension funds are penalized for having more than 10 per cent of their assets in foreign holdings (although the May 23, 1985, federal budget increased this limit for pension plans investing in small business).

Specific to the securities industry are the provincial statutes governing its activities. In addition to provincial statutes, each of the four stock exchanges in Canada and the IDA also regulate the activities of their members. These self-regulating organizations (SROs) have been delegated the authority to suspend or cancel member privileges for violating SRO rules and regulations. In Ontario, for example, the Ontario district of the IDA and the TSE restrict non-industry ownership of Ontario investment dealers. This requirement does not appear in the Ontario Securities Act.

In addition, SROs are responsible for administering the National Contingency Fund, which compensates investors in the event that a member of the IDA goes bankrupt. Since the NCF's inception in 1969, it has paid out $2.1 million for six business failures. To date, no investor has lost money due to a securities firm going bankrupt. However, with a number of U.S. securities firms having gone under in the United States and with Canadian dealers becoming increasingly involved in quasi-banking (such as customer credit accounts, which amounted to more than $ 1 billion in 1985) there is a movement by securities regulators and SROs to upgrade the current coverage provided by the NCF.

GOVERNMENT ASSISTANCE

There are government incentives in Canada to own stock. For example, the dividend tax credit provides a tax incentive for income producing investment, such as stock. The $500,000 capital gains exemption is also expected to stimulate equity investments, but not to the same degree that it would have had this incentive been limited to securities investments in Canada.

At the provincial level, Quebec has been the most aggressive in stimulating stock ownership. In 1979, the Quebec Stock Savings Plan was established. It provided generous tax incentives to individuals purchasing newly-issued stock from Quebec-based companies. Almost 43,500 investors, or 1.2 per cent of all

Quebec taxpayers, took advantage of the QSSP in 1982.[17] However, the program has been costly. From its inception to the end of 1984, the Plan cost $440 million, $170 million in 1984 alone. Further, 77 per cent of the investments went to companies with assets over $1 billion. The QSSP has tended to benefit high-income earners. In response to these shortcomings, the QSSP has been revised a number of times, the most significant revision occurring in Quebec's spring 1985 budget.

In October, 1985, the Alberta Government announced the Alberta Stock Savings Plan. Under this Plan, an Albertan could receive an annual tax credit of up to $3,000 against the individual's provincial income tax. The level of incentive has recently been enriched to 30, 15 and 10 per cent for investing in emerging, expanding and mature companies with at least 25 per cent of their operations in Alberta.

Recently, British Columbia introduced its Equity Investment Plan Act, which will provide a grant equal to 25 per cent of the purchase price of newly-issued shares, or $2,500, whichever is less. The program is proposed to last for three years.

Quebec has established additional programs to stimulate its securities industry. In Quebec's 1983 budget, two new initiatives were introduced:

- A tax deferral scheme is available for certain types of trades made by "market makers" on the Montreal Exchange. This has had the effect of improving stock liquidity on the ME.

- Financial assistance is provided to junior Quebec companies issuing their first public share offering on the ME. Grants are provided to firms studying the feasibility of going public for the first time and for covering some of the costs incurred in the process of going public, such as prospectus preparation and entry costs.

The May 13, 1986, Ontario Budget proposed measures to encourage the creation of Employee Share Ownership Plans. The Province will provide employees of small- and medium-sized Ontario businesses with a 15 per cent credit on up to $2,000 of annual purchases of newly-issued shares of their employers' corporations. The Ontario program is to be in place for 1987.

POLICY PROPOSALS

A number of recent reports on financial institutions have included proposals with important implications for entry into, and ownership of, the Ontario securities industry. However, on June 11, 1986, the Honourable Monte Kwinter, Minister of Financial Institutions, announced that the Government of Ontario had decided to adopt in principle the main recommendations of the February 1985 report of the Ontario Securities Commission[18]. The OSC is drafting regulations based on this decision for public comment.

The new provisions which will apply to foreign investment in the industry include the following:

- Non-residents will be allowed to own up to 30 per cent of a securities firm.
- A non-resident may apply to register as a foreign securities dealer. The total capital of such foreign dealers, however, will be limited to 30 per cent of the total industry capital, and any one foreign dealer will be limited to 1.5 per cent of this capital.
- Non-resident entrants will be required to meet defined standards of performance prior to being registered.

Under current provisions, non-resident ownership in securities firms is limited to 10 per cent by any single non-resident and 25 per cent by non-residents in aggregate. It is important to recognize, however, that many non-resident firms are already active in the securities business in this province, dealing in the "exempt" market which accounts for approximately one-half of all trading generated in Ontario. Under the new policy, all participants in the exempt market would be registered and subject to the provisions of registration.

The proposals will also open the securities industry to Canadian financial institutions - banks, insurance companies and loan and trust corporations. While a 30 per cent ownership limit has been set for non-resident investors, Ontario is prepared to discuss allowing Canadian financial institutions to obtain an even higher ownership level. At a minimum, Ontario will be permitting them to own up to 30 per cent of a securities firm. Also, it is Ontario's preference that domestic financial institutions be allowed to enter the securities market at the same time as changes come into effect for non-resident companies.

Finally, this new domestic investment policy will also apply to Canadian non-financial firms investing in the securities industry. Regulations will ensure that appropriate checks and safeguards are in place to address any self-dealing or conflict of interest concerns.

In his June announcement, Mr. Kwinter said that all of these measures are designed to ensure the growth of Toronto as a major centre of international finance, while maintaining the essentially Canadian character of the securities industry.

NOTES

1. Dominion Bureau of Statistics, Standard Industrial Classification Mannual, 1970 (Ottawa: Information Canada, 1970), p. 39.

2. Statistics Canada, Standard Industrial Classification, 1980, Catalogue No. 12-501E (Ottawa: Minister of Supply and Services Canada, 1980), p. 509.

3. Statistics Canada also prepared a special SIC classification for the service sector in 1973. This system categorized the industry by function, such as:

   956 Investment Services:

   9561 Underwriting and distribution of newly issued securities
   9562 Buying and selling service, securities (including commodity futures, mutual funds)
   9563 Buying and selling service,rights (patents, copyrights, mineral rights)
   9564 Buying and selling service, mortgages
   9565 Buying and selling service, other financial (e.g. scholarship trust)
   9566 Administration, trusts, funds, estates

   From Statistics Canada, Standards Division. Standard Classification of Services. (Ottawa: Standards Division, June 1973), p. 48.

4. Statistics Canada, Business Microdata Integration and Analysis, Employment, Payroll and Average Earnings by Industry Division, Firm Size, Age and Sex: 1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

5. Employees are measured in full-year equivalents. This is derived by dividing a firm's annual payroll by estimates of average annual earnings per employee.

6. Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

7. Joint Securities Industry Committee, on behalf of the Alberta, Montreal, Toronto and Vancouver Stock Exchanges and the Investment Dealers Association of Canada, Regulation and Ownership of Market Intermediaries in Canada, September 19, 1984, page II-2.

8. Ontario Securities Commission, A Regulatory Framework for Entry into and Ownership of the Ontario Securities Industry, February, 1985, pp. 3-5.

9. Dennis Slocum, "Some Financial Institutions to Gain TSE Trading Access," Globe & Mail, January 4, 1986.

10. Op. Cit., Joint Securities Industry Committee, p. 13.

11. Securities Capital Markets Committee, Response to the Interim Report of the Ontario Task Force on Financial Institutions, May, 1985. p. 59.

12. Dennis Slocum, "Exchanges Move Toward Global Trading," *Globe & Mail*, January 2, 1986.

13. *Op. Cit.*, Ontario Securities Commission, p. 53.

14. *Ibid.*, pp. 7-8.

15. *Op. Cit.*, Joint Securities Industry Committee. pp. 20-21.

16. Federation Internationale Des Bourses De Valeurs, December 13, 1985 (mimeographed).

17. Martin Martin, *The Quebec Stocks Savings Plan: A Program Unique in North and South America*, July, 1984. p.2.

18. *A Regulatory Framework for Entry into and Ownership of the Ontario Securities Industry*, February, 1985. The recent reports mentioned in the text include the following: Minister of State for Finance, *The Regulation of Canada's Financial Institutions: Proposals for Discussion*, April, 1985; and *Technical Supplement*, June, 1985; Standing Committee on Finance, Trade and Economic Affairs, *The Regulation of Canada's Financial Institutions: Proposals for Discussion*; *Technical Supplement and the Final Report of the Working Committee on the Canada Deposit Insurance Corporation*, (Blenkarn Report), November, 1985; and, Ontario Task Force on Financial Institutions, *Final Report*, (Dupre Task Force), December, 1985.

Table 1

SECURITY BROKERS AND DEALERS (INCLUDING EXCHANGES): NUMBER OF FIRMS IN ONTARIO, BY FIRM SIZE (1983)

Employee Size Class	Number of Firms	Per Cent of Firms
1 - 4.9	215	70
5 - 19.9	28	9
20 - 49.9	22	7
50 - 99.9	9	3
100 -499.9	21	7
500 +	13	4
Total, All Sizes	308	100

Source: Statistics Canada, Business Microdata Integration and Analysis, Employment, Payroll and Average Earnings by Industry Division, Firm Size, Age and Sex: 1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

Table 2

SECURITY BROKERS AND DEALERS (INCLUDING EXCHANGES): COMPOSITION OF ONTARIO EMPLOYMENT BY FIRM SIZE (1983)

Employee Size Class	Number of Employees[1]	Per Cent of Employment
1 - 4.9	194	1
5 - 19.9	277	2
20 - 49.9	634	4
50 - 99.9	461	3
100 -499.9	3,063	22
500 +	9,581	67
Total, All Sizes	14,209	100

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1. Measured on a full-year equivalent basis.

Source: Statistics Canada, Business Microdata Integration and Analysis, Employment, Payroll and Average Earnings by Industry Division, Firm Size, Age and Sex: 1983, 1986. Statistics Canada prepared this data at the request of the Service Sector Study.

Table 3

GROSS DOMESTIC PRODUCT FOR CANADA: SECURITIES BROKERS AND DEALERS
(Including Exchanges)

Years	Gross Domestic Product (Millions $1971)	Gross Domestic Product (% Change)	Per Cent of FIRE GDP
1971	182.6	-	1.9
1972	181.3	-0.7	1.8
1973	203.1	12.0	1.9
1974	186.4	-8.2	1.6
1975	191.2	2.6	1.6
1976	202.9	6.1	1.6
1977	204.2	0.6	1.5
1978	242.3	18.7	1.7
1979	250.9	3.5	1.7
1980	313.1	24.8	2.0
1981	256.4	-18.1	1.6
1982	212.2	-17.2	1.3
1983	285.3	34.4	1.7
1984	268.3	-6.0	1.6

Source: Statistics Canada, "Gross Domestic Product by Industry by Years", CANSIM Main Base (Matrix 1126, D142072)

Table 4a

SALES NETWORK BY REGION

Region	Sales Offices #	Sales Offices %	Retail Registered Representatives #	Retail Registered Representatives %	Institutional Registered Representatives #	Institutional Registered Representatives %	Total Employees #	Total Employees %
P.E.I.	6	0.9	17	0.2	0	-	24	0.1
Nova Scotia	27	4.1	154	2.4	2	0.2	254	1.3
New Brunswick	21	3.2	92	1.4	1	0.1	138	0.7
Newfoundland	7	1.0	33	0.5	0	-	48	0.2
Quebec	112	17.0	1,009	15.7	153	18.6	2,916	14.9
Ontario	260	39.4	2,466	38.3	470	57.1	9,871	50.4
Manitoba	17	2.6	184	2.8	2	0.2	645	3.3
Saskatchewan	20	3.0	116	1.8	1	0.1	192	1.0
Alberta	56	8.5	694	10.8	9	1.1	1,202	6.1
B.C. & Yukon	97	14.7	1,427	22.2	45	5.5	3,106	15.9
Total Canada	623	94.4	6,192	96.1	683	83.0	18,396	93.9
U.S.	10	1.5	181	2.8	55	6.7	722	3.7
Other	27	4.1	68	1.1	85	10.3	462	2.4
Total	660	100.0	6,441	100.0	823	100.0	19,580	100.0

Table 4b

DISTRIBUTION OF SHAREOWNERS BY REGION

	Retail Registered Representatives %	Canadian Shareowners* %	Shareowners Per Retail Registered Representative
Atlantic Provinces	4.8	3.4	233
Quebec	16.3	12.7	255
Ontario	39.8	39.0	321
Manitoba	3.0	0.9	99
Saskatchewan	1.9	0.8	140
Alberta	11.2	11.0	321
British Columbia	23.0	32.2	458
Total Canada	100.0	100.0	328

*Source: Canadian Shareowners: Their Profile and Attitudes
The Toronto Stock Exchange, April 1984

Table 5

TYPE OF OFFICE BY REGION

Region	Head Offices #	Head Offices %	Branch Offices #	Branch Offices %	Affiliate Offices #	Affiliate Offices %
P.E.I.	0		6	1.1	0	
Nova Scotia	2	2.1	25	4.6	0	
New Brunswick	0		21	3.9	0	
Newfoundland	0		7	1.3	0	
Quebec	16	17.0	93	17.2	3	12.0
Ontario	57	60.7	199	36.8	4	16.0
Manitoba	2	2.1	15	2.8	0	
Saskatchewan	0		20	3.7	0	
Alberta	2	2.1	53	9.8	1	4.0
B.C. & Yukon	15	16.0	82	15.1	0	
Total Canada	94	100.0	521	96.3	8	32.0
U.S.	0		2	0.4	8	32.0
Other	0		18	3.3	9	36.0
Total	94	100.0	541	100.0	25	100.0

Source: The Toronto Stock Exchange. The Sales Network of the Canadian Securities Industry, July 1984.

Table 6

ANNUAL SUMMARY FOR TRADING VALUE AND PERCENT DISTRIBUTION FOR THE FIVE CANADIAN EXCHANGES

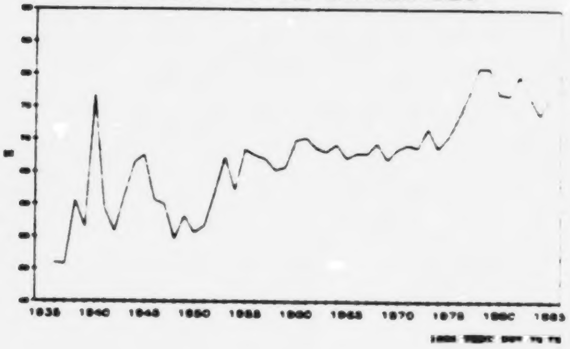
($ MILLIONS)

	Toronto		Montreal		Vancouver		Alberta		Winnipeg		Total
	$	%	$	%	$	%	$	%	$	%	$
1975	4,089.0	70.4	1,384.7	23.9	314.5	5.4	18.3	0.3	1.8	*	5,808.3
1976	5,093.5	73.3	1,483.6	21.3	328.3	4.7	46.8	0.7	1.0	*	6,953.2
1977	6,044.8	76.8	1,374.2	17.5	395.1	5.0	58.5	0.7	0.8	*	7,873.4
1978	10,362.0	81.0	1,708.4	13.4	607.5	4.8	95.4	0.7	17.9	0.1	12,791.2
1979	18,726.3	81.0	2,675.4	11.6	1,469.7	6.4	239.4	1.0	1.1	*	23,111.2
1980	29,514.5	77.1	3,856.8	10.1	4,419.6	11.6	469.8	1.2	1.9	*	38,262.6
1981	25,094.3	76.7	3,328.2	10.2	3,859.2	11.8	426.8	1.3	0.9	*	32,709.4
1982	17,670.3	79.9	2,773.4	12.5	1,558.5	7.0	120.5	0.6	2.7	*	22,125.4
1983	30,193.2	76.5	5,088.8	12.9	3,964.2	10.0	226.6	0.6	6.4	*	39,479.2
1984	26,681.9	73.8	7,013.9	19.4	2,231.8	6.2	206.9	0.6	2.6	*	36,137.1
1984 thru Nov	24,533.4	73.5	6,507.9	19.5	2,139.0	6.4	188.1	0.6	2.4	*	33,370.8
1985 thru Nov	39,885.1	76.7	9,531.9	18.3	2,318.8	4.5	254.3	0.5	0.5	*	51,990.6
1985											
January	4,045.6	76.2	1,126.8	21.2	119.5	2.3	15.2	0.3	*	*	5,307.1
February	3,054.9	76.0	820.8	20.4	133.3	3.3	12.9	0.3	*	*	4,021.9
March	3,204.9	76.0	793.3	18.8	195.0	4.6	22.8	0.6	*	*	4,216.0
April	3,139.1	76.2	728.6	17.7	220.3	5.4	30.0	0.7	0.2	*	4,118.2
May	3,722.0	78.7	754.9	16.0	227.6	4.8	22.4	0.5	0.1	*	4,727.0
June	3,432.0	77.4	779.0	17.6	194.2	4.4	26.5	0.6	*	*	4,431.7
July	3,742.4	77.7	831.4	17.3	214.7	4.5	26.0	0.5	*	*	4,814.5
August	4,330.3	76.9	984.3	17.5	280.4	5.0	34.7	0.6	*	*	5,629.7
September	3,207.7	74.6	847.6	19.7	224.5	5.2	22.5	0.5	*	*	4,302.3
October	3,376.9	75.3	866.5	19.3	224.6	5.0	17.3	0.4	*	*	4,485.3
November	4,629.2	78.0	998.6	16.8	284.8	4.8	23.8	0.4	*	*	5,936.4

*Less than .1%

CHART 1

ANNUAL
TSE SHARE OF VALUE TRADED ON
CANADIAN STOCK EXCHANGES



Source: TSE. Market Progress Executive Report. November, 1985 (Monthly)

Table 7

Rank	Name of Firm	Total Capital ($000) (1)
1.	Merrill Lynch & Co., Inc. (2)	$2,878,946
2.	Shearson Lehman/American Express Inc.	2,464,800
3.	Salomon Brothers Holding Co. Inc.	2,251,340
4.	Dean Witter Financial Services Group	1,608,159
5.	The E.F. Hutton Group Inc.	1,325,851
6.	Goldman, Sachs & Co. (3)	1,116,700
7.	First Boston, Inc.	856,700
8.	Prudential-Bache Securities Inc.	803,208
9.	Paine Webber Group Inc.	744,121
All Canadian Firms (4)		734,100
10.	Drexel Burnham Lambert Group Inc.	729,538
11.	Bear, Stearns & Co.	650,000
12.	Morgan Stanley & Co. Inc.	461,833
10 Largest Canadian Firms		497,032
13.	Stephens Inc.	416,134
14.	Donaldson, Lufkin & Jenrette, Inc.	404,122
15.	Thomson McKinnon Inc.	316,525
16.	Kidder, Peabody & Co. Inc. (3)	315,347
17.	Smith Barney Inc.	269,100
18.	Spear, Leeds & Kellogg	266,500
19.	A.G. Edwards & Sons Inc.	228,907
20.	Van Kampen Merritt Inc.	221,776
Largest Canadian Firm (5)		111,000

Notes:
(1) All figures in $Cdn.
(2) As at December 28, 1984.
(3) As at November 30, 1984.
(4) As at January 1, 1985, there were 95 member firms of the self-regulatory organizations in Canada.
(5) Ranks twenty-sixth by capital in relation to U.S. investment dealers as at January 1, 1985.

Source: Securities Industry Capital Markets Committee., Response to the Interim Report of the Ontario Task Force on Financial Institutions. May, 1985, pg. 54-55.

Table 8

COMMISSIONS EARNED ON TRADING ON ALL MARKETS BY FOREIGN INVESTORS THROUGH MEMBERS OF THE TORONTO STOCK EXCHANGE
1983-1985

(in millions of dollars)

Geographic Origin of Investor	Jan-Mar 1983	April-June 1983	July-Sept 1983	Oct-Dec 1983	Jan-Mar 1984	April-June 1984	July-Sept 1984	Oct-Dec 1984	Jan-Mar 1985
	$	$	$	$	$	$	$	$	$
Canada	182.6	175.2	151.6	128.7	135.2	110.9	106.2	115.5	149.0
United States	3.4	4.4	3.0	2.7	3.0	3.2	2.4	2.3	3.2
South America/Caribbean	1.5	1.6	1.3	1.1	1.2	1.0	0.9	0.7	1.0
United Kingdom	3.3	2.7	2.9	2.9	2.9	2.3	2.4	3.1	3.9
Europe	6.8	7.4	6.9	5.3	5.4	3.4	4.5	4.5	5.5
Other Countries	1.0	1.1	1.0	0.9	0.8	0.6	0.7	0.6	1.0
Total Foreign	16.0	17.1	15.2	12.8	13.2	10.4	10.9	11.3	14.6
Total All Countries	198.6	192.3	166.7	141.5	148.4	121.3	117.1	126.8	163.5
	%	%	%	%	%	%	%	%	%
Canada	91.9	91.1	90.9	90.9	91.1	91.4	90.7	90.9	91.2
United States	1.7	2.3	1.8	1.9	2.0	2.6	2.1	1.9	2.0
South America/Caribbean	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.6	0.6
United Kingdom	1.7	1.4	1.7	2.0	2.0	1.9	2.1	2.5	2.4
Europe	3.4	3.8	4.2	3.7	3.6	2.8	3.8	3.6	3.4
Other Countries	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.6
Total Foreign	8.1	8.9	9.1	9.1	8.9	8.6	9.3	9.1	8.8
Total All Countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Totals may not add due to rounding.

Source: TSE Revenue and Market Analysis (RAMA) Study

Table 9

AVERAGE RATE OF COMMISSION PER DOLLAR VALUE IN AGENCY EQUITY BUSINESS COMPLETED ON VARIOUS MARKETS BY TSE MEMBERS

Market	3rd Qu. 1985	3rd Qu. 1984	1984	1983	1982
Canadian	1.0	1.0	1.0	1.2	1.1
U.S. & Foreign	0.6	0.7	0.6	0.8	0.8
Total	1.0	0.9	0.9	1.1	1.1

Source: Rama Study

TELECOMMUNICATIONS

DEFINITION

The telecommunications industry has traditionally consisted of telephone systems as well as telegraph and other non-telephone systems, all of which provide a service in the form of access to a basic communications path along which information can be transmitted. With recent technological advances, it also seems appropriate to include cable television systems as part of the telecommunications industry, since they provide a service in the form of improved reception and information along a cable (carrier) system.[1]

Radio and television broadcasting companies, although part of the communications industry in broad terms, are not included in the above definition because they do not provide a communications path, i.e. telecommunications infrastructure. Instead, they use communications paths, such as cable systems, satellites and/or the public airwaves, to transmit their programming.[2]

Similarly, manufacturers of communications equipment, such as Litton Systems (Canada), Leigh Instruments and Northern Telecom, are not included in the above definition, since they do not provide communications infrastructure either. Although they may manufacture some of the components of the communications infrastructure (e.g. wiring or switching devices), they do not provide access to a communications network, as does a telephone company. In general terms, manufacturers of communications equipment supply terminals and other types of equipment which companies and individuals purchase to plug into the infrastructure network.[3]

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1. Telephone and non-telephone systems have 1970 Standard Industrial Classifications as follows: Telephone Systems (SIC 544), Telegraph and Cable Systems (SIC 545). Under the 1980 revision of the SIC, these were consolidated into the Telecommunications Carriers Industry (SIC 482). Cable television systems were classified as Community Antenna Television Systems in the 1970 SIC (54320), but were renamed in the 1980 SIC as Cable Television Industry (4814). Much of the work that has been done in this area is based on the old classification, as is much of the available Statistics Canada data.

2. Studies of the "communications" sector of the economy invariably separate broadcasting from telecommunications.

3. Manufacturing Division under Communications Equipment Industry (SIC 335). Telephone, non-telephone and cable systems are all part of the Transportation, Communications and Other Utilities Division.

COMPANIES IN THE INDUSTRY

The main telephone company in Ontario is Bell Canada, with more than 95 per cent of the access lines.[1] Other operators include Ontario Northland Communications (a provincial Crown corporation), municipal systems in 15 cities (principally Thunder Bay, Kenora, Dryden, Cochrane and Ripley), and 17 incorporated telephone systems.[2] Bell Canada is a wholly-owned subsidiary of Bell Canada Enterprises and operates in Ontario and Quebec. In addition to basic telephone service, Bell provides a wide range of other services, including mobile telephone and data communications. Bell Canada is a member of Telecom Canada, along with 8 other large telephone companies across Canada and Telesat Canada (see below).

The main non-telephone telecommunications carriers are CNCP Telecommunications, Teleglobe Canada and Telesat Canada. They operate throughout Canada and in 1982 accounted for 99.8 per cent of Total Operating Revenues of the national carriers.[3] Ontario Northland Railway operates in Ontario, but is much smaller. The three main national companies are headquartered in Toronto, Montreal, and Ottawa, respectively. CNCP telecommunications is a separate company resulting from a partnership agreement between Canadian National Railways and Canadian Pacific Railways. Teleglobe Canada is a federal Crown corporation which provides overseas telecommunications services via satellites and a network of undersea cables. Telesat Canada provides telephone, telecommunications and broadcasting services to the Canadian domestic market via communications satellites. It is jointly owned by Bell Canada, the federal government, and other Canadian telecommunications common carriers. Both Teleglobe and Telesat work with Bell Canada and other companies and have been described as "carriers' carriers".

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1. Employment and New Technology in the Telecommunications Industry, An Appendix to the Final Report, The Ontario Task Force on Employment and New Technology, 1985. (Hereafter referred to as the Ontario Task Force.)

2. There is also a federally-owned telephone system called CN Telecommunications which is headquartered in Toronto (and hence is considered by Statistics Canada to be an Ontario telephone system) and which operates phone networks in Newfoundland, British Columbia, the Yukon, and the Northwest Territories, but not in Ontario.

3. Statistics Canada, Catalogue 56-201, 1982. The other national carriers are the North American Telegraph Company and the Eastern Telephone and Telegraph Company.

In 1983 there were 156 licensed cable systems in Ontario, of which 142 were in operation. These cable systems had 2 million subscribers.[1]

EMPLOYMENT

According to Statistics Canada,[2] in 1983 there were 34 telephone systems in Ontario, not including Bell Canada which is designated as a Quebec system because its head office is located in that province. These systems are represented by 52 establishments, according to Statistics Canada's Business Register for Ontario.

Between the years 1976 and 1982, employment in Ontario's telephone systems rose steadily from 25,928 to 29,960.[3] Statistics Canada's Business Register indicates that of the 52 telephone system establishments, 37 have less than 20 employees; 6 have between 20 and 50 employees; 1 has between 100 and 200 employees; 1 has between 200 and 500 employees; and 1 has over 5,000 employees.[4]

In Statistics Canada's Catalogue 56-201, employment data for telegraph and other non-telephone systems are provided for Canada only. Employment declined from a 1971 level of 7,553 to 6,027 in 1982. CNCP Telecommunications had 4,154 employees, Teleglobe Canada had 1,391 and Telesat Canada had 482 employees. Employment has tended to fall for a couple of years, have a weak recovery, and then decline further. The Ontario Task Force noted that, according to census data, telegraph and other non-telephone systems in Ontario employed 2,405 people in 1981. The Business Register for Ontario indicates that there are 17 establishments in Ontario in the telegraph and other non-telephone systems industry. Fourteen of these have fewer than 20 employees; 2 of them have between 200 and 500 employees; and 1 of them has between 2,500 and 5,000 employees.

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1. Statistics Canada, Catalogue 56-205, 1983.
2. Statistics Canada, Catalogue 56-203, 1983.
3. Bell Canada is the dominant operator in both Ontario and Quebec. However, Statistics Canada does not separate out the number of employees in each province. These figures were estimated from available data by the Ontario Task Force which also noted that, according to the Census of Canada, there were 37,920 employees in the telephone systems industry in Ontario in 1981. These two sources of employment data differ because of differences in coverage and methodology.
4. Employment size for 6 establishments is not available.

In 1983 some 2,494 people were employed in Ontario by cable television licensees.[1] This represented a 12 per cent increase in the number of employees since 1979 (2,224).

Summary Table of Ontario Employment in
The Telecommunications Industry

Telephone Systems (1982)	29,960
Telegraph and Other Non-Telephone Systems (1981 Census)	2,405
Cable Television Systems (1983)	2,494

OWNERSHIP

The ownership status of telecommunications companies has been referred to in preceding paragraphs. Here it need only be stated that the companies operating in Ontario are virtually entirely owned by Canadian investors or governments.

Company	Ownership
Bell Canada	Bell Canada Enterprises (owned mainly by Canadian investors)
CNCP Telecommunications	Canadian National Railways
Canadian Pacific Limited	
Teleglobe Canada	Federal Crown corporation
Telesat Canada	Federal government and the
major common carriers	

Cable systems ownership information is not published by Statistics Canada.

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[1] These were licensees with more than 1,000 subscribers. Statistics Canada (Catalogue 56-205) does not publish employment figures by province for cable systems with less than 1,000 subscribers, because they are negligible. At the national level, there were 99 people employed by cable systems with less than 1,000 subscribers, out of a total of 6,484 cable system employees.

REVENUES

Operating revenues for telephone systems in Ontario in 1982 were $2,811.5 million, as estimated by the Ontario Task Force.[1] Revenues declined only once since 1971, between 1977 and 1978 when they fell by 5.5 per cent.

Operating revenues for telegraph and other non-telephone systems in Canada[2] in 1982 were $536.3 million. Revenues have increased almost steadily since 1971, with only a slight decrease of 0.2 per cent in 1976. The increases were of a larger magnitude in the early 1970s than in the late 1970s, with the exception of a 1979 increase of 12.4 per cent.

Total operating revenues of cable systems in Ontario[3] increased by 50 per cent between 1979 and 1983, from $127.4 million to $191.7 million. In 1983 they accounted for 36 per cent of the Canada wide figure of $529 million.[4]

Summary Table of Operating Revenues of the Telecommunications Industry in Ontario[5]

Telephone Systems (1982)	$2,811.5	Million
Telegraph and Other Non-Telephone Systems (Canada) 1982)	536.3	"
Cable Television Systems (1983)	191.7	"

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[1] Again, an estimate was required for Bell Canada revenues, since all of its revenue is reported as Quebec data.

[2] Again, data on telegraph and other non-telephone systems are available only for Canada.

[3] Again, those with 1,000 or more subscribers.

[4] The national figure for cable systems with less than 1,000 subscribers as well as more than 1,000 subscribers was $535 million. Data on operating revenues of cable systems are from Statistics Canada, Catalogue 56-205, 1979 and 1983.

[5] According to the 1985 Ontario Budget, Ontario's Gross Provincial Product in 1982 and 1983 was $133.5 billion and $148.0 billion, respectively.

KEY ECONOMIC FACTORS

Important developments have taken place in recent years in the telecommunications industry. Deregulation and increased competition have been the most important ones. There was a substantial move towards competition in the late 1970s, starting with certain specialized telecommunications services (see Economic Council of Canada, Reforming Regulation 1981) and then spreading to private voice and the attachment of equipment to telephone company networks in the early 1980s.

It should also be noted that much of the change in Canada has been with respect to federally regulated companies such as Bell Canada and BC Tel (British Columbia Telephone). While federally regulated telephone companies account for some 65 per cent of the telecommunications carriage market (as distinct from the telecommunications manufacturing market), they still do not constitute a national market. Increased competition in the United States, on the other hand, best represented by the break up of American Telephone and Telegraph (AT&T), is much more of a national phenomenon.

OUTLOOK

The outlook for the telecommunications industry is difficult to gauge since the industry itself is changing. Old distinctions between the fields of telecommunications, broadcasting, computing and data processing are becoming blurred. Indeed, there is a recurring theme that telecommunications and computer technologies are merging. It has been suggested that, given these technological and economic realities, any "policy efforts to preserve obsolescent distinctions are likely counterproductive and are unlikely to succeed in the medium to long term".[1]

Dramatic and rapid technological changes will continue in the telecommunications field, adding to competitive pressures. This will have important implications for both existing carriers and entrants to the telecommunications field. Thus, for example, it is possible that an increasing portion of telecommunications will flow over specialized private systems and networks which do not require access to or integration with the carriers' local switched networks. This is sometimes referred to as the 'bypass' issue. As a result, the established carriers may well become smaller businesses as opposed to the constantly growing ones they have been over the last three decades.

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[1] Lawson A.W. Hunter, "Notes for a Speech on An Agenda for Telecommunication Policy Change", conference on Competition and Technological Change: The Impact on Telecommunications Policy and Regulation in Canada, September 26, 1984, p.4.

So far the major competitive developments in the telecommunications field have been concerned with system interconnection and terminal attachment (i.e. terrestrial telecommunications). However, in April 1984, the federal Department of Communications announced that all restrictions on ownership of satellite transmit earth stations would be lifted on April 1, 1986.* This is expected to create a more competitive environment in which large business users will be able to apply for licences to operate their own uplink facilities.

Other development prospects include increased competition in the area of cellular mobile radios, and between the cable companies and the telephone companies. Cable systems are also expected to provide future competition in the area of computer services. Finally, the federal government has announced its intention to sell Teleglobe to the private sector.

TRADE/INTERNATIONAL OPERATIONS

It has been suggested that the economic performance of the telecommunications industry (and specifically, the carriage sub-sector or infrastructure aspect of the industry, which is our primary focus here), cannot be evaluated in terms of the trade balance because trade as such has been virtually non-existent in the past. A Price Waterhouse study has stated that "The pick-up and delivery of messages, whether on paper or through telecommunications circuits is an inherently local activity."[1] It noted, of course, that arrangements do exist for long-distance transmission between points in different countries, but these do not generally involve an export or import of services because the revenues are split between the sending and receiving countries.

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* We have been informed that the restrictions were lifted on April 1, 1986, as announced.

[1] Toward a Policy Framework for the Economic Development of the Communications/Information Sector, September 1981, p.44.

Nevertheless, trade may become a factor in the future, since a satellite controlled by interests in one country could be an economically competitive means of transmitting voice, data or video signals between points in another country. Furthermore, expertise in telecommunications is exportable, as evidenced by Bell Canada International Management and Consulting (BCI) and its 1978 contract with Saudi Arabia, which was extended in 1983 for 5 years. Indeed, Canada is well recognized internationally for its consulting services in the telecommunications field. An Office of Economic Policy (Treasury) study noted that BCI "generates the highest revenue of any international company from pure consulting services in telecommunications."[1] It should be noted here, however, that it is more accurate to view BCI as part of the management consulting industry, as its name suggests, than as part of the telecommunications common carrier system.

REGULATORY ENVIRONMENT

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates federally incorporated telecommunications companies, according to the provisions of the Railway Act and other legislation.[2] These companies - Bell Canada, BC Tel, NorthwesTel, Telesat, Terra Nova Tel, and CNCP Telecommunications - represent about 70 per cent of all regulated Canadian telecommunications assets, revenues and subscribers. CRTC regulated carriers serve about 73 per cent of the Canadian population.[3]

As noted above, a number of regulatory decisions have already been made in conjunction with the growing competitive thrust of the telecommunications industry. The more important developments in this area are as follows. In April 1983, the CRTC concurred in the corporate reorganization of Bell Canada, under which Bell Canada Enterprises Inc. became the new parent company of Bell Canada, Northern Telecom, Bell-Northern Research and several other companies.

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1. The Communications Sector, October 1984, p.15.

2. Telecommunications companies which are not federally incorporated are regulated by a provincial government public utility board or, in some cases, by a municipal council. Teleglobe Canada is not regulated by an independent agency, but is owned and subject to control by the federal government.

3. Data are from the CRTC's 1984-85 Annual Report.

In November 1982, the CRTC issued a decision permitting residential subscribers to own all their telephone sets, not just extension sets, as had been permitted under a 1980 interim decision. Although single-line residence and business subscribers now have the choice of owning or leasing their telephones, associated inside wiring, for the time being, remains the property of the telephone companies. Multi-line business subscribers may also own or lease terminal equipment. However, if they choose to own such equipment, the associated inside wiring must also be subscriber-provided.

In March 1984, the CRTC concluded that the interconnection of two-way mobile radio-telephone systems, including cellular radio service, with the public switched telephone networks of federally regulated telephone companies would be in the public interest. Where possible, rates for interconnection are to be based on common carrier general tariffs or, if none exist, on cost.

In 1979 and 1981, the CRTC issued decisions permitting CNCP to interconnect with Bell Canada and BC Tel in order to provide certain competitive interexchange voice and data services. In October 1983, CNCP applied for permission to interconnect its system with Bell's and BC Tel's public switched telephone networks to provide public long distance telephone services on a competitive basis. In August 1985, the CRTC denied CNCP's application on the grounds that it would not be in the public interest. More specifically, the CRTC was not convinced that CNCP would be able to meet its commitment to provide universal service and to offer price discounts of the order of magnitude assumed in its business plan.

In May 1982, the CRTC began hearings on the issue of establishing appropriate costing methodologies to be used in the assessment of rates for existing services. This issue arose from concerns that carriers operating in both monopoly and competitive markets might price their competitive services below cost at the expense of monopoly subscribers and to the detriment of competitors. The CRTC announced its decisions on suitable costing and accounting procedures in June 1985.

While the preceding issues have received considerable attention in recent years, the CRTC has also dealt with, or is in the process of dealing with, a number of other issues. Thus, for example, the CRTC is carrying out a review of the General Regulations of all federally regulated telephone companies, including CNCP.

The CRTC is also addressing the issue of whether Bell and BC Tel should conduct all of their multiline and data terminal equipment business through separate affiliates. The conflicting priorities of the common carriers and the competitive suppliers are involved here. The common carriers are pressing for increased flexibility and reduced 'regulatory lag', whereas the competitive suppliers want the CRTC to ensure no cross-subsidy from monopoly services and maximization of revenues from competitive terminal services. An additional point of interest is that the CRTC is concerned with the use of its own resources for the purpose of regulating common carriers in the terminal equipment area. If structural separation could ensure stability and fairness in the terminal equipment market, the CRTC feels that its resources could be better directed to other areas.

Another issue has been the provision of 'enhanced services'. This is especially topical in light of the trend toward a merging of telecommunications and computer services. In 1984 the CRTC decided that telecommunications services are 'enhanced' when they use computer processing or similar techniques to provide a customer with more than a basic communications path. It also decided that providers of 'enhanced services', other than federally regulated carriers, will not be regulated and that federally regulated carriers are to permit the resale of their telecommunications services by other 'enhanced service' providers. The CRTC also established regulatory safeguards to ensure that federally regulated carriers do not use their monopoly position to gain undue advantage over competitive 'enhanced service' providers.

In early 1985 the CRTC announced a decision restricting the use of Automatic Dialing-Announcing Devices and approved two alternatives to broadening Extended Area Service (a method of rate-setting which permits subscribers located in neighboring telephone exchanges to call one another on a toll free basis).

GOVERNMENT ASSISTANCE

The telecommunications industry does not receive any preferential tax treatment. While it no doubt avails itself of various provisions in the tax code relating to capital cost allowances and tax credits, such measures are not specific to this industry but apply to a broad spectrum of industries. In the same vein, smaller cable operators may be able to avail themselves of special tax provisions for small businesses, but such preferential treatment applies to any small business.[1]

Similarly, there is no financial assistance available to the telecommunications industry in terms of government grants and loans. The federal Department of Communications has a Space Industry Development Program, under which contracts are awarded for relevant research and development. However, the program is designed to encourage the participation of Canadian industry in the design, development, and construction of communications satellite systems and components. As such, it is directed more toward telecommunications manufacturers than to the carriers themselves.

POLICY WISHES

The CRTC has noted the more important concerns of consumers in the area of telecommunications in a recent discussion[2] of what constitutes the 'public interest' in this field. These concerns include: universality of service; consumer choice and responsiveness to consumer need; quality of service; and, just and reasonable rates. Additional concerns noted by the CRTC apply more to business than household consumers. These include: requirements that rates and conditions of service do not confer an undue preference or disadvantage; innovation in the telecommunications industry and in Canadian business in general; and, efficient telecommunications systems. An additional concern, not mentioned by the CRTC, which would be relevant to both household and business consumers, would be privacy and the confidentiality of information transmitted.

The concerns of the telecommunications industry itself are of a different sort. Firms which are considering entering the telecommunications field favour the increasingly competitive nature of the industry. However, barriers to entry can be formidable. There are economies of density in local telecommunications service, so entry in less heavily populated areas is discouraged; there are high capital costs associated with entry; and there is likely to be a need for access to other users, which implies interconnection with existing networks.

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1. It should be reiterated here that our definition of the telecommunications industry focusses on the 'service' component of telecommunications and does not include the manufacture of telecommunications equipment. Manufacturers of such equipment may benefit from other tax provisions, such as the 'manufacturing and processing deduction' which has the effect of lowering the statutory corporate tax rate.
2. Telecom Decision CRTC 85-19, Interexchange Competition and Related Issues, August 29, 1985, p.10-11.

Some of these 'competitive considerations' apply to established firms as well, as evidenced by CNCP's recent efforts to increase competition in long distance public telephone service.

Established telecommunications carriers are confronted with dramatic changes in what has been up until recent times a very stable and monopolistic world. These established firms, such as Bell Canada, are concerned about "unfair" competition and the opportunities for "cream skimming" involved in opening up markets to new firms.[1] They are also concerned about the "bypass" issue noted above.

GOVERNMENT OF ONTARIO POLICY

In a May 1984 submission to the CRTC, entitled Toward a National Telecommunications Policy: The Ontario Perspective, the Ontario Ministry of Transportation and Communications presented its views on telecommunications policy in this country. It stated its belief that competition is "an essential element to promote the necessary flexibility and dynamism in the Canadian telecommunications environment" (p.5). In practical terms, it recommended that Telesat Canada be allowed some flexibility regarding the sale or continued lease of its current satellite uplink equipment in order to be able to compete effectively with the emerging use by business enterprises of their own uplink facilities. Similarly, Ontario recommended that developments such as local area networks[2] and cellular mobile radio must not be "restricted by unnecessary rules" (p.26). Ontario also recommended the cancellation of Telesat Canada's membership in Telecom (Telesat plus nine major telephone companies) because it felt that this association "reduces considerably the possibility of having effective competition between terrestrial and satellite facilities" (p.19). Nevertheless, Ontario also recognized that regulation "is necessary to ensure that telecommunications services are provided on just and reasonable terms" (p.23).

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1. It should be mentioned that the issue of rate rebalancing (which involves modifying the current practice of cross-subsidizing local telephone service with long distance service priced above cost) will have to be addressed in the near future regardless of increased competition and the possible emergence of "cream skimming".

2. A local area network is a communications system that allows a number of information processing devices to link up with each other for a limited distance, such as within a college campus.

In general, Ontario recommended that the federal government pursue four objectives:

1. to facilitate broad opportunities for competition in telecommunications wherever feasible;

2. to obtain greater consistency across Canada in technical standards, conditions of carriage, and competition;

3. to maintain the financial capability and improve the technological capability of Canadian telecommunications corporations; and

4. to increase flexibility in the ways in which customers can use and interconnect with the network.

TOURISM

DEFINITION

Most publications on tourism in Canada or tourism in Ontario begin by noting the difficulties involved in defining this "industry". It is not so much a separately identifiable industry per se, as an amalgamation of economic activities that cut across a variety of industries. With these parameters, its definition can be very broad in scope.

For our purposes in this paper, we limit our inquiry to five major components of tourism: (1) accommodation and food/beverages, which Statistics Canada calls "the commercial core of tourism"; (2) transportation; (3) amusement and recreation; (4) retail trade; and, (5) travel agencies and tour operators.

With the exception of travel agencies and tour operators, these industries are not entirely devoted to tourism activity, of course. Thus, tourism accounts for only part of the "hospitality" industry. Similarly, only part of the transportation industry can be considered to represent tourism activity.

INDUSTRY STATUS IN ONTARIO

Because of the special nature of tourism, it is impossible to state the number of "tourism" businesses in Ontario. Many businesses, in a number of industries, derive part of their revenue from tourism activity. It is these businesses on which we must focus, rather than on "tourism" businesses per se.

In the case of the hospitality industry, Statistics Canada provides the following data for 1983 on the number of firms and full-year equivalent (FYE) employees. It should be noted that these hospitality businesses are part of the Standard Industrial Classification (SIC) and have the 1970 SIC numbers indicated.[1]

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[1] Statistics Canada, Business Microdata Integration and Analysis, Employment Creation by Industry, Firm Size and Life Status, 1978-83, 1986. Statistics Canada prepared this data at the request of the Service Sector Study. (Hereafter referred to as the Statistics Canada Special Data.) A somewhat different classification is provided in Statistics Canada's publication Tourism and Recreation: A Statistical Digest, Catalogue 87-401, 1984. This source indicates that in 1982 there were 5,651 'accommodation businesses' in Ontario, broken down as follows: hotels (1,047), motels (1,331), tourist courts and cabins (1,472), tent and trailer campgrounds (1,169), and outfitters (632).

Hospitality Industry

	No. of Firms	No. of FYE Employees
Hotels and Motels (SIC 881)	2,599	45,103
Lodging Houses and Residential Clubs (SIC 883)	94	621
Camping Grounds and Trailer Parks (SIC 884)	828	3,901
Restaurants, Caterers and Taverns (SIC 886)	11,022	146,255
Total	14,543	195,880

Source: Statistics Canada Special Data.

Information on the size and employment distribution (1978) of Ontario's hospitality businesses is also provided by the Statistics Canada Special Data. It shows that the large firms are the biggest employers, although most hospitality firms employ less than 20 people. (See Table A1 in the Appendix).

While the important role of transportation in tourism is widely acknowledged, the data compiled in this regard invariably focus on 'travel' information, i.e. origin and destination points, mode of transport, purpose of trip, etc. They do not examine the number of businesses nor the number of employees in the transportation industry which are involved in tourism activity. This is understandable to some extent, since much tourist transportation is self-provided, by means of automobiles.

However, the Statistics Canada Special Data does provide the following information on those parts of the transportation sector which could be considered important to tourism and travel.

Transportation Industry

	No. of Firms	No. of FYE Employees
Air Transport (SIC 501)	200	12,861
Services Incidental to Air Transport (SIC 502)	107	798
Railway Transport (SIC 503)	30	29,142
Water Transport (SIC 504)	81	4,100
Services Incidental to Water Transport (SIC 505)	64	1,565
Bus Transportation, Interurban & Rural (SIC 508)	42	1,536
Urban Transit Systems (SIC 509)	24	14,790
Taxicab Operations (SIC 512)	547	3,072
Total	1,095	67,864

Source: Statistics Canada Special Data.

The size and employment distribution (1978) of firms in the transportation industry is presented in Table A2 in the Appendix. As in the case of the hospitality industry, small firms are the greatest in number, but they employ fewer people overall than do the large firms.

Data for 1983 on the number of firms and employees in the area of Amusement and Recreation, and in Retail Trade businesses which are likely to benefit from tourist activity, are presented below. Their size and employment distributions (1978) are presented in the Appendix (Table A3 and A4). Again, most firms are found in the smallest size category, but they employ fewer people overall than do the large firms.

Amusement and Recreation

	No. of Firms	No. of FYE Employees
Motion Picture Theatres (SIC 841)	142	4,657
Theatrical and Other Staged Services (SIC 845)	392	1,379
Miscellaneous Amusement and Recreation Services (SIC 849)	2,494	23,237
Total	3,028	29,273

Source: Statistics Canada Special Data.

Retail Trade

	No. of Firms	No. of FYE Employees
General Merchandise (SIC 642)	1,586	102,407
Gasoline Service Stations (SIC 654)	4,067	24,754
Shoe Stores (SIC 663)	619	9,996
Men's Clothing Stores (SIC 665)	867	10,448
Women's Clothing Stores (SIC 667)	1,565	17,447
Clothing & Dry Goods, miscellaneous (SIC 669)	1,393	12,641
Drug Stores (SIC 681)	1,491	19,111
Book & Stationery Stores (SIC 691)	502	7,239
Jewellery Stores (SIC 694)	836	7,427
Liquor, Wine and Beer Stores (SIC 696)	13	11,145
Tobacconists (SIC 697)	183	1,088
Retail, miscellaneous	5,990	33,617
Total	19,112	257,320

Source: Statistics Canada Special Data.

Another important component of the tourism industry is travel agencies. Unfortunately, data on this type of business is particularly scarce. It does not have its own three-digit SIC number and is not included in the Statistics Canada Special Data as a separate category. A study of Canada's travel agents (retailers) and tour operators (wholesalers) was scheduled to be released by Statistics Canada in early summer 1985. That study is now scheduled to be released in late 1986; no preliminary data are available.

The Tourism Industry Association of Canada (TIAC) was not able to provide any information with regard to the number of travel agents in Ontario. The Alliance of Canadian Travel Associations (ACTA) was only able to say that 650 of its members are from Ontario; it did not know how many non-ACTA travel agents and tour operators are located in Ontario.

The Ontario Ministry of Consumer and Commercial Relations, however, was able to tell us that, as of January 1986, there were 2,281 travel agents registered in Ontario under the Travel Industry Act; of these, 478 were registered as wholesalers, although we were told that probably only 75 firms actually practice as wholesalers. Of the 2,281 total, 1,826 were head offices and 455 were branch offices. No employment figures are available, although we were told, as a very rough guesstimate, that there are probably 4 employees per agency on average.

As indicated earlier, only part of the hospitality industry, transportation industry, etc. is included in 'tourism'. The share of each industry which can be considered 'tourist' in nature has been studied by Tourism Canada and Statistics Canada through their Tourism Impact System model. Based on travel surveys, they have concluded that in Canada the following proportions of industry receipts can be attributed to tourism:

1982 Sector Ratios*

$ Millions	Transportation	Accommodation and Food	Recreation & Entertainment	Travel Trade Services
Receipts related to Tourism	4,805.6	4,441.8	1,273.6	1,825.1
Total sector receipts	12,740.9	6,659.0	1,978.1	3,994.8
Tourism as a % of Total Sector Receipts	37.7%	66.7%	64.3%	45.6%

* Retail trade is not included. In the case of Travel Trade Services, the figure means that 45.6% of total sector receipts is accounted for by Canadian travel receipts.

Source: Tourism Tomorrow, Towards a Canadian Tourism Strategy, Canada, Minister of State (Tourism), 1985, p.32.

In the case of Ontario, a detailed analysis of 'tourism' was carried out in a 1982 study prepared for the Ministry of Tourism and Recreation.[1] It found that the direct employment effects of tourism in Ontario were as follows:

Industry*	No. of Person-Years
Accommodation and Food	102,000
Retail Trade	61,000
Transportation	29,000
Amusement and Recreation	13,000
Total	205,000

* Unlike the Tourism Impact System, this study excludes travel agents and includes retail trade.

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1. The Economic Impact of Tourism in Ontario and Regions 1982, prepared by Econometric Research Limited of Burlington, Ontario for the Ontario Ministry of Tourism and Recreation, Tourism Research Section, June, 1984.

Roughly 25 per cent of this total direct employment is located in Metropolitan Toronto. A geographic breakdown of direct employment, by tourism sector, is presented in Table A5 in the Appendix.

In addition to these direct employment effects, there are also indirect and induced effects. Indirect employment results from the creation of jobs in industries which supply the tourism sector, e.g. food suppliers to restaurants. Induced employment results from jobs generated in the economy as a result of expenditures by households and businesses earning income in tourism and its supplier industries.

The total of direct, indirect and induced employment generated by tourism in 1982 was over 361,000 person-years, or about 9 per cent of total employment in the province. Even this figure probably understates the contribution of tourism to job creation, since the provincial denominator used is measured in terms of part-time and full-time jobs, whereas the numerator is measured in terms of person-years (which is numerically smaller than the corresponding sum of part-time and full-time jobs).[1]

Again, accommodation and food expenditures had the greatest employment impact (151,000 person-years), while transportation and retail trade expenditures had roughly the same employment impact, 92,000 person-years of employment each; amusement and recreation expenditures resulted in 28,000 person-years of employment.[2]

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[1] In a September 1985 pre-budget submission to the Treasurer of Ontario (see section on Industry Concerns below), Tourism Ontario stated that during 1984, the Ontario tourism industry accounted directly for 195,000 person-years of employment, with indirect and induced employment bringing the total to more than 354,000 person-years or 12 per cent of the province's employed workforce. The submission also noted that tourism is the largest provincial employer of women, youth, semi-skilled, unskilled and seasonal workers.

[2] The Economic Impact of Tourism in Ontario and Regions 1982 also provides a geographic and detailed sectoral breakdown of the total employment impact of tourism, which is presented in Table A6 in the Appendix.

OWNERSHIP

The Statistics Canada Special Data is the primary source of information on foreign ownership of Ontario's tourism industry. It indicates that foreign ownership of Ontario's tourism industry is not a cause for concern, either in terms of the number of firms which are foreign-owned,[1] the number of people such firms employ, or the size of their payrolls.

TRENDS

The Statistics Canada Special Data also shows that over the period 1978-1983 tourism-related businesses experienced a greater number of deaths than births. This was true for all the major segments of the tourism industry: the hospitality industry, transportation, amusement and recreation, and retail trade. (See Table A8 in the Appendix)

With regard to employment over the 1978-1983 period, a more varied picture emerges. The number of full-year equivalent employees in hotels and motels declined markedly, but the number of employees in the rest of the hospitality industry increased. The amusement and recreation and retail trade segments of the tourism industry also experienced employment increases, but most of the transportation segment saw a substantial decline in the number of employees.

REVENUES

In 1982 the income generated in response to total tourism expenditures in Ontario amounted to $7.9 billion or about 6 per cent of Gross Provincial Product.[2] Tourism expenditures in transportation generated the largest amount of income ($2,768 million), followed by accommodation and food ($2,609 million), retail trade ($1,807 million), and amusement and recreation ($749 million).

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[1] A breakdown of firm ownership in the major sectors of Ontario's tourism industry is presented in Table A7 in the Appendix.

[2] Data in this section are from The Economic Impact of Tourism in Ontario and Regions 1982.

Tourism expenditures themselves totalled $6.3 billion in 1982 or almost 4.8 per cent of GPP. They were divided among sectors as follows: accommodation and food ($2,249 million), transportation ($2,199 million), retail trade ($1,300 million) and amusement and recreation ($601 million).

Expenditures on tourism by households, businesses and foreign visitors doubled between 1970 and 1976 and increased about one and a half times between 1976 and 1980. In the early 1980s, however, the rate of increase of these expenditures decelerated slightly. The GPP in 1982 was 1.77 times higher than its corresponding value in 1976, while tourist expenditures in 1982 were 1.92 higher than their 1976 value.

CUSTOMER COMPOSITION

As one would expect, most travellers in Ontario come from other parts of Ontario. The second largest group of tourists comes from the United States. It is worth noting, however, that while the vast majority of international visitors are from the United States, visitors from other foreign countries account for approximately thirty per cent of international spending in Ontario. A breakdown of tourist origin and expenditures in 1981 and 1984 is presented below.

	No. of Person-Trips ('000)		Expenditures ($ Millions)	
	1981	1984	1981	1984
Ontario*	86,440	83,263	3,860	4,655
Other Provinces*	3,241	2,697	560	556
United States	28,248	22,952	1,164	1,441
Other Countries	1,220	1,002	559	552
	119,149	109,914	6,143	7,204

* Included are residents of Ontario and other Canadian provinces who travel, for any purpose, to destinations 25 and 50 miles or more (one-way), respectively, away from home. Commuting to work or school is excluded. This definition is from the Ontario Travel Survey. It should be noted that Statistics Canada's Canadian Travel Survey defines 'trip' in terms of a distance of 80 km. or more.

Source: 1981 data: Ontario Tourism Statistical Handbook 1983, Table 2.1, p.13.
1984 (preliminary) data: Pre-budget submission of Tourism Ontario Inc. to Robert Nixon, September 16, 1985.

KEY ECONOMIC FACTORS

Tourism in Canada has been described as an industry that "has been going nowhere."[1] In recent years tourism has performed poorly both domestically and internationally. In the former case, one can point to a 10 per cent decline in person-trips in Canada from all origins between 1980 and 1982.[2] This decline was heavily influenced by a 20 per cent drop in same-day visits from the United States and a 14 per cent fall in same-day trips within Canada. Although expenditures by travellers in Canada increased by 12 per cent, this represented a decline in real terms, because the Consumer Price Index rose by 25 per cent over the same period. There is evidence that this situation has deteriorated even further in more recent years.

On the international front, Canada's balance of payments travel account has been in a deficit position year after year (see below, Status in Outside Markets). The size of this deficit has become a cause of serious concern.

Similar considerations apply to Ontario (see Customer Composition and Status in Outside Markets).

A number of factors account for these developments, but the issue of "image" remains a critical one. Canada is still perceived in terms of its natural attractions: lakes, mountains and wilderness areas (usually in conjunction with the ubiquitous Mountie). With yuppies, single women and senior citizens accounting for a much larger share of the tourist market than before, the demand for tourism is changing. There is growing interest in cosmopolitan urban areas which offer cultural activities, shopping and high quality restaurants and accommodation. In this regard, Ontario may have a comparative advantage because of the increasingly cosmopolitan nature of Metropolitan Toronto and its accessibility to the American market.

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1. Globe and Mail, Report on Business, December 1985, p. 58.

2. Data in this paragraph are from Statistics Canada, Catalogue 87-401, 1984.

It is also important to note that Ontario, through its "Yours to Discover" advertising campaign, has already made a considerable effort to improve the province's image. Launched in May 1980, the slogan had reached an awareness level of 94 per cent in Ontario by the summer of 1983.[1] In January 1985 the "Yours to Discover" campaign was selected not only as the best tourism advertising but also as the best of all advertising categories at the U.S. Television and Radio Commercials Festival in Chicago.

A final comment needs to be made regarding one of Ontario's traditional tourist attractions. In a recent federal report on tourism in Canada, entitled Tourism Tomorrow: Towards a Canadian Tourism Strategy, it was suggested that Niagara Falls requires major revitalization. While acknowledged as a unique attraction, capable of drawing visitors from around the world, the report classifies it as a "declining" tourism area, i.e. an area where "infrastructure and services have deteriorated due to lack of maintenance or a failure to address changing market requirements". Similar concerns are expressed about the Muskokas.

The industry contends that it is adversely affected by high construction and labour costs and by difficulties in obtaining financing. It is felt that the 1981 federal budget hurt the industry by eliminating Multiple Unit Residential Building (MURB) write-offs and the tax free capital gains status of second residences, which was important to developers of condominium-style resort complexes. On the other hand, it has been suggested that tourism will benefit from investment stimulated by more recent budget measures, such as the $500,000 lifetime capital gains exemption and the expansion of qualified investments for retirement plans.

With regard to high prices, consumers and international tour operators agree that prices of air transport, car rentals, gasoline and alcoholic beverages in Canada are not competitive with those in the United States. Industry representatives have expressed concern in the past that Ontario's gasoline tax and its alcoholic beverage mark-up and retail sales tax system are detrimental to tourism in the province.

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1. Globe and Mail, Report on Business, December 1985.

The quality of tourism services is an issue of growing concern. Tourism training and professional development in Canada are limited: fewer than one in five workers has received any formal training from a school or institution, while only one in three gets formal training while on the job. Canada has few institutions with international credentials in tourism. Training and education have been aimed chiefly at preparing people for entry level jobs, mostly at community colleges and hardly at all in universities. Information on tourism training in Canada and in Ontario is provided in the Appendix.*

Tourism Tomorrow stated that "The challenge is to give it (training) top priority. Training in the tourism industry is not a useful extra, it is an imperative." The report goes on to say that:

> "Positive steps have already been taken by many of our community colleges and some universities. But we need only look to our neighbouring competitor, the United States, to see how we are being outstripped. Doctoral level degrees in travel and tourism fields are available now in the United States. Hundreds of institutions offer courses in travel and tourism subjects. From computerized reservation systems to market forecasting, from inventory control to the psychology of leisure time, United States institutions are equipping their people to compete."

The coordination problem is also extremely serious. Tourism Tomorrow states that "... the biggest single problem facing tourism has been a lack of co-ordinated effort within the federal government, between the federal government and the provinces and between all levels of government and the private sector." Not only has there been an absence of co-operative effort, but policies and programs have resulted in unnecessary duplication and have worked at cross purposes.

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* Since completion of this profile, the Ontario and Canadian governments have announced that a new $10 million Canadian Tourism Management Centre will be built in Barrie, Ontario. The Centre, which has been called Canada's 'first college of tourism', will become a division of Georgian College.

OUTLOOK

Despite the problems it currently faces, it is generally recognized that there is considerable potential for growth in the tourism industry. In both Canada and the United States there is increased leisure time and a desire to travel, both of which augur well for the industry. Tourism facilities and attractions are being developed and there is a general upgrading of the tourism infrastructure, much of this encouraged by federal and provincial government programs. Moreover, the expansion of convention facilities in recent years has made it possible to better accommodate the international business traveller. Tourism Tomorrow states that "No single industry in Canada has greater potential for new job creation than does tourism." Indeed, employment in tourism is expected to grow at more than five per cent a year in this decade and even faster in the 1990s.

The outlook for the coming year is particularly favourable because the threat of terrorist activity abroad is inducing people to travel within Canada.

STATUS IN OUTSIDE MARKETS

As noted previously in our section on Customer Competition, most tourists in Ontario come from Ontario. Only 2.5 per cent of person-trips and 7.7 per cent of tourist expenditures are accounted for by Other Province visitors.[1] Indeed, only 14 per cent of domestic person-trips in Canada in 1982 crossed a provincial boundary, i.e. most domestic travel is intraprovincial.[2]

In contrast, 21.8 per cent of person-trips in Ontario and 27.7 per cent of expenditures are accounted for by visitors from the United States and Other Countries.

Canada has experienced a deficit on its balance of payments travel account since at least 1977. Ontario has similarly experienced a greater outflow than inflow of tourist dollars to other countries. The relevant figures since 1977 are as follows:

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[1] Percentage figures in this and the next paragraph are based on data presented on p.9 of this profile.

[2] Statistics Canada, Catalogue 87-401, 1984.

Balance on Travel Account for Canada and Ontario, 1977 - 1984
(Millions of Current $)

	Balance		
	Canada	Ontario	Per Cent Share
	($)	($)	(%)
1977	-1,641	-574	35.0
1978	-1,706	-656	38.4
1979	-1,068	-390	36.5
1980	-1,228	-392	31.9
1981	-1,116	-341	30.6
1982	-1,284	-429	33.4
1983	-2,204	-791	35.9
1984	-2,126	-833	39.2

Source: Ontario Tourism Statistical Handbook 1983, Table 2.3., p.15 Pre-budget submission of Tourism Ontario Inc. to Robert Nixon, September 16, 1985, p.17.

The larger deficits in recent years are in part the result of a smaller number of overseas visitors to Canada which, in turn, is a reflection of poor economic conditions abroad and the increased cost to overseas residents of Canadian dollars in terms of most currencies; between 1980 and 1983 prices in Canada effectively rose by one half for European visitors. There was also record high spending by Canadians on international travel, a result of the levelling off in prices, particularly for gasoline, in the United States and the strength of the Canadian dollar overseas; prices in some European countries dropped by a third in terms of the Canadian dollar between 1980 and 1983.[1]

Tourism abroad has also been influenced by the fact that the proportion of Canadian employees with more than 11 paid holidays a year nearly doubled between 1976 and 1982, from less than one-sixth to nearly one-third of employees in the firms surveyed.[2] The greater number of holidays available to employees has no doubt made extended travel abroad more feasible and has contributed to Canada's (and Ontario's) travel deficit.

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1. Statistics Canada, Catalogue 87-401, 1984.
2. Ibid.

It is also interesting to note that fares paid to foreign carriers by Canadians exceed those paid to Canadian carriers by foreigners; furthermore, this difference has increased steadily since at least 1979, and accounts for $683 million of Canada's 1984 travel deficit.[1] According to Tourism Tomorrow, in the Canada-U.S. scheduled service market, Canadian airlines carry only about 40 per cent of the traffic. The entry of "no frills" carriers such as People Express could further decrease the number of Canadians travelling to the U.S. on Canadian airlines. Tourism Tomorrow also states that: "Further deregulation of the Canadian airline industry is required if Canada is to compete with service in the United States."

Despite these deficit concerns, it is still important to point out that tourism is Ontario's second largest export industry, after Motor Vehicles, Auto Parts and Accessories. Tourists from the United States and other countries spent approximately $2 billion in Ontario in 1984.[2]

Finally, another aspect of international tourism deserves comment. This is the establishment by Ontario firms of operations overseas; this is particularly relevant with respect to hotels. Of the six Canadian hospitality companies listed in the Globe and Mail's Report on Business 1,000, two are involved in the provision of accommodation services. They are Scott's Hospitality and Four Seasons Hotels, both based in Toronto. Scott's is the largest franchisee in the worldwide Holiday Inn system. It has 54 hotels, located primarily in Canada, but also in the United Kingdom, the United States and the Caribbean. Four Seasons Hotels Inc., through its principal subsidiary, Four Seasons Hotels Limited, manages 18 hotels in principal cities in Canada and the United States and in London, England; it owns a freehold or leasehold interest in 13 of these hotels. Currently under development are 5 hotels which the company will manage, including one in which the company will own an equity interest.

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[1] Statistics Canada, Catalogue 66-201, 1984.

[2] Pre-budget submission of Tourism Ontario Inc. to Robert Nixon, September 16, 1985.

REGULATORY ENVIRONMENT

Because tourism is the sum of many industrial components, it is impossible to discuss regulation of tourism per se. Certain regulatory requirements affect the industries which constitute tourism, but in varying degrees. The most obvious instance of regulatory control involves the transportation industry, which is being examined in a separate profile.

Regulation of the accommodation and food industry, of retail trade, of travel agents, and of amusement and recreation services does not appear to be substantial, especially when compared with the regulation of other sectors of the economy (e.g. transportation or financial institutions). Nevertheless, numerous Provincial Acts impact on these components of the tourism industry. Thus, for example, the Tourism Act affects tourist establishments which provide sleeping accommodation. The Travel Industry Act sets out registration and other requirements for travel agents and tour operators. Tourism is also affected by the Liquor Licence Act, the Innkeepers Act, the Retail Business Holidays Act, and other legislation. In its September 1985 pre-budget submission to the Treasurer of Ontario, Tourism Ontario noted that "The Ontario tourism industry is subjected to a myriad of legislated acts, regulations, controls, licences, levies, fees, tariffs, and assessments, some of which discourage investment and enterprise, and are counter-productive."

ASSISTANCE CURRENTLY RECEIVED

Federal assistance to the tourism industry is provided through the Small Business Loans Act; the Federal Business Development Bank, which provides management counselling services and acts as a lender of last resort for small businesses; and the Canada Employment and Immigration Commission, whose training programs are available to tourism businesses.

From the summer of 1983 until the fall of 1984, tourism was eligible for support under the Industrial Regional Development Program (IRDP). Since then the tourism component of IRDP has been incorporated in tourism subsidiary agreements between the federal government and the provinces. The Canada-Ontario Subsidiary Agreement for Tourism Development, under the Economic and Regional Development Agreements (ERDAs), calls for a federal contribution to Ontario of $22 million over 5 years, with another $22 million provided by Ontario. The Eastern Ontario Subsidiary Agreement (EOSA) provides for equal funding by Canada and Ontario of regionally significant tourism projects located in designated areas of Eastern Ontario. Twenty-two proposals were approved in 1984-85.[1]

Another relevant program is the Trade and Convention Centre Program, which involves federal cost sharing with provincial and/or municipal governments and the private sector. Centres in Ontario have benefitted from federal contributions under this program as follows:

Metropolitan Toronto Convention Centre	$19.0 million
Hamilton Trade and Exhibit Centre	4.0 million
Windsor Convention Centre	0.3 million
	$23.3 million

In Ontario, a variety of financial assistance is available to the tourism industry from the Ministry of Tourism and Recreation, which had a total budget of $186 million in 1984-85. Many of these programs are administered by the Ontario Development Corporation.

The Tourism Redevelopment Incentive Program (TRIP) provides loan guarantees of up to $1 million and subsidizes interest rates for both new tourism projects and improvements to existing establishments. In 1984-85, 75 loans valued at $25.2 million were approved.

Under the Tourism Term Loan Program, 72 loans worth $5.3 million were made to tourism operators in 1984-85, while under the Accommodation Grading Loan Assistance Program, 25 tourism operators received help to secure better Tourism Ontario ratings for their establishments.

The Municipal Tourism Development Planning Program provides grants to help establish regional tourism development plans; assistance on a shared-cost basis is available to tourist operators, developers and municipalities to conduct market surveys and other studies to determine if potential projects are commercially viable.

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1. Data in this and the following paragraphs are from the Ministry of Tourism and Recreation's 1984-85 Annual Report, except for the Trade and Convention Centre Program data, which are taken from Tourism Tomorrow.

A number of other advisory and consulting services are provided by the Ministry to the tourism industry.

Nor-Dev is a program of the Ministry of Northern Development and Mines which is designed to provide economic development assistance for Northern Ontario business, industry and tour operators. The focus of the Tourism Development component is on planning and feasibility studies and on marketing programs.

The Ontario Development Corporation's Help for Entrepreneurs Loan Program (H.E.L.P.) encourages small, new or expanding industrial companies and tourist establishments to undertake viable business opportunities that may result in economic benefits for Ontario.

The tourism industry also benefits from Ontario's Small Business Development Corporations (SBDC) Program, which defines 'eligible small businesses' to include prescribed tourist activities. In the 1985 Ontario Budget, the percentage rate of payment of grants and tax credits for investors purchasing newly-issued shares of SBDCs intending to invest outside Northern and Eastern Ontario was reduced from 30 per cent to 25 per cent.

Finally, financial assistance is available for the hiring and training of employees in the tourism industry under the Ontario Youth Employment Program and the Ontario Career Action Program.

INDUSTRY CONCERNS

The concerns of the tourism industry in Ontario were presented to Robert Nixon by Tourism Ontario Inc. in a pre-budget submission dated September 16, 1985.* Tourism Ontario is an umbrella organization which has as its members the following associations:

Accommodation Motel Ontario Association
Attractions Ontario
Northern Ontario Tourist Outfitters Association
Ontario Association of Convention Bureaux
Ontario Hotel and Motel Association
Ontario Motor Coach Association
Ontario Private Campground Association
Ontario Restaurant and Foodservices Association
Ontario Ski Resorts Association
Resorts Ontario
12 Ontario Travel Associations

Tourism Ontario made numerous recommendations, covering a variety of issues. They recommended that no tax increases of any type be introduced that could adversely affect any part of the tourism industry. Their recommendation that the 5 per cent accommodation tax rebate be extended for one year was more than met, since it was announced in the 1985 Ontario Budget that the rebate program would be extended indefinitely.[1] Other tax recommendations included providing an exemption from retail sales tax for all tourism industry purchases of printed and promotional literature and brochures; and, raising the retail sales tax exemption level on the price of admission to places of amusement from $4.00 to $5.00.

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* Tourism Ontario also met with the Treasurer at that time. A pre-budget meeting was not held in the course of preparing the 1986 budget. Tourism Ontario was invited, however, to submit any concerns they had; no submission was received.

[1] This measure is one of two tax initiatives in support of the tourism industry which have been announced since the 1985 pre-budget submission. The other is an increase in the exemption level for prepared foods from $1.00 to $2.00 (1986 Ontario Budget).

Tourism Ontario also recommended the abolition of provincial gallonage fees paid by all liquor-licenced establishments on their purchases of beverage alcohol, and the implementation of a 25 per cent licencee trade discount on all licencee purchases of beer, domestic and imported wines, and spirits. Changes to the Liquor Control Act, the Liquor Licence Act and Regulation 581 were also suggested. It is worth noting that the issue of alcohol pricing received more attention than any other issue in Tourism Ontario's submission.

Several recommendations involved the government's financial commitment to the tourism industry. The provision of replacement funding for former BILD tourism projects was recommended; it was also suggested that the marketing budget for the Ministry of Tourism and Recreation be expanded and that a 5-year, $20 million Canada-Ontario Subsidiary Agreement for Tourism Marketing be negotiated.

Other industry recommendations included the following:

- Provincial minimum wage rates should not rise beyond the legislated levels imposed during 1984 until they could be justified by competitive market forces and measurable productivity gains.

- A user-pay rate structure, reflecting annual operating costs, should be introduced in Provincial Parks.

- More venture capital investment in tourism enterprise should be encouraged through the SBDC program. More specifically, Tourism Ontario recommended that a separate class of SBDC be legislated which could invest up to $5 million (rather than the current $2.5 million maximum) in individual tourism projects, and that the total value of SBDC investments in tourism be capped at $20 million per year.

At the national level, there has been much discussion of the tourism industry in Canada. At a meeting in November 1984, of federal, provincial and territorial Ministers of Tourism and other officials, it was decided that a comprehensive, co-operative tourism strategy was required.

The working paper Tourism Tomorrow: Towards a Canadian Tourism Strategy was released shortly thereafter to stimulate discussion among intersted groups and to facilitate consultation within the federal government as well as with the provinces, territories and municipalities, with labour, and with the public at large. The then Minister of State for Tourism, the Honourable Tom McMillan, travelled across the country to hear the views of those concerned with the future of the tourism industry. This process culminated with a National Tourism Tomorrow Conference held in Ottawa last October.

The conference was followed by a meeting of federal, provincial and territorial tourism ministers in Vancouver in November, at which a "statement of principles" regarding the roles of different levels of government in promoting tourism (e.g. marketing, data research, development) was signed.

Finally, it should be noted that at the 1984 meeting of Tourism Ministers a Task Force on Tourism Statistics was created under the aegis of Statistics Canada. Both private and public sector interests are represented on the Task Force, which is responsible for addressing special statistical problems in the tourism area. Twelve projects are currently underway, but none of them specifically concerns tourism in Ontario.

Table A1

	0 - 19.9 Employees		20-99.9 Employees		100+ Employees		Total	
	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE
Hotels & Motels	2,724	10,482	751	14,370	186	25,227	3,661	50,079
Lodging Houses & Residential Clubs	101	x 212*	9	135	1	x	111	402
Camping Grounds & Trailer Parks	788	2,523	34	1,130	-	-	822	3,652
Restaurants, Caterers & Taverns	9,402	40,616	1,884	42,572	235	51,349	11,521	134,537
	13,015	x53,833	2,678	58,207	422	x76,576	16,115	188,670

* An "x" signifies that the total number of FYE employees in a given category was not printed for reasons of confidentiality. The number following the "x" indicates the number of FYE employees that was printed, so that, for example, "x212" can be interpreted as "at least 212 FYE employees."

Source: Statistics Canada Special Data.

Table A2

	0 - 19.9 Employees		20-99.9 Employees		100+ Employees		Total	
	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE
Air Transport	186	553	56	x 429	28	x10,526	270	11,742
Services Incidental to Air Transport	102	x	12	151	5	x	119	1,198
Railway Transport	11	52	5	131	13	x	29	35,175
Water Transport	70	200	28	x 127	19	x 3,862	117	4,248
Services Incidental to Water Transport	62	128	25	317	13	2,253	100	2,699
Bus Transportation, Interurban & Rural	36	202	13	313	11	1,892	60	2,408
Urban Transit Systems	11	32	6	288	10	12,675	27	12,995
Taxicab Operations	770	x 764	71	1,697	9	x 1	850	3,583
Total	1,248	x1,931	216	x3,453	108	x31,209	1,572	74,048

Source: Statistics Canada Special Data.

Table A3

	0 - 19.9 Employees		20-99.9 Employees		100+ Employees		Total	
	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE
Motion Picture Theatres	180	694	27	424	10	2,973	217	4,090
Theatrical & Other Staged Services	388	x 549	10	233	1	x	399	1,071
Miscellaneous Amusement & Recreation Services	2,414	7,039	192	4,906	54	7,974	2,660	19,919
Total	2,982	x8,282	229	5,563	65	x10,947	3,276	25,080

Source: Statistics Canada Special Data.

Table A4

	0 - 19.9 Employees		20-99.9 Employees		100+ Employees		Total	
	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE	# of Firms	FYE
General Merchandise	1,693	3,430	111	2,735	70	95,106	1,874	101,270
Gasoline Service Stations	5,057	19,264	163	3,451	10	1,277	5,230	23,993
Shoe Stores	568	2,049	38	x 945	23	x 6,294	629	9,902
Men's Clothing Stores	1,032	3,270	57	x 265	14	x 153	1,103	10,195
Women's Clothing Stores	1,528	x 4,104	133	x 2,955	37	5,937	1,698	15,273
Clothing & Dry Goods, miscellaneous	1,370	3,933	102	x 2,005	29	x 3,968	1,501	10,869
Drug Stores	1,282	7,954	166	3,789	21	4,313	1,469	16,057
Book & Stationery Stores	464	1,454	40	973	11	3,595	515	6,022
Jewellery Stores	778	3,342	50	x 1,139	10	x 3,171	838	8,220
Liquor, Wine & Beer Stores	10	x 13	0	0	10	x 7	20	10,423
Tobacconists	192	512	3	x	2	x	197	1,064
Retail, miscellaneous	5,654	17,091	305	7,785	38	5,132	5,997	30,009
Total	19,628	x66,416	1,168	x26,042	275	x128,953	21,071	243,297

Source: Statistics Canada Special Data.

Table A5

Direct Employment in Ontario by Region, 1982
(Person Years)
TOTAL EXPENDITURE

	Region							
Expenditure Sector	South West Ontario	Festival Country	Georgian Lakelands	Metro Toronto	Central Ontario	Ontario East	Ontario North	Total
Transportation	3,206	5,068	1,705	9,648	2,168	4,844	2,841	29,481
Retail Trade	9,940	10,699	4,380	14,078	4,758	9,423	7,284	60,562
Amusement & Recreation	1,791	3,330	913	3,092	1,405	1,177	1,079	12,788
Accommodation & Food	11,811	18,607	10,158	22,778	12,833	13,637	11,798	101,622
Total	26,748	37,705	17,157	49,596	21,164	29,081	23,002	204,453

Table A6

Economic Impact Indicators of Tourist Expenditures in Ontario, 1982
(Person Years)
TOTAL EXPENDITURE

	Region							
Expenditure Sector	South West Ontario	Festival Country	Georgian Lakelands	Metro Toronto	Central Ontario	Ontario East	Ontario North	Total
Agriculture	8119	4977	0	0	0	8	426	13528
Mining	101	47	0	0	0	8	1498	1655
Food & Beverages	216	303	0	0	0	4	80	603
Rubber & Plastics	1	14	0	0	0	6	0	22
Leather	0	0	0	0	0	0	0	0
Yarns, Clothing, etc.	2	18	0	0	0	2	14	35
Wood	0	0	0	0	0	1	3	4
Furniture & Fixtures	0	0	0	0	0	2	0	2
Paper & Allied Industries	0	10	0	0	0	9	0	19
Printing, Publishing	9	0	0	0	0	7	16	33
Primary Metal Ind.	0	80	0	0	0	0	2	82
Metal Fabricating	24	72	0	0	0	14	6	117
Machinery Ind.	9	15	0	0	0	3	1	27
Transport Equip.	115	50	0	0	0	4	2	171
Electrical Prod.	2	33	0	0	0	12	13	60
Non-Metallic Minerals	3	0	0	0	0	1	1	5
Chemicals	82	27	0	0	0	2	9	121
Misc. Manufacturing	2	0	0	0	0	6	4	11
Other Major Mfg.	94	86	0	0	0	2	54	237
Construction	534	668	221	862	278	463	409	3434
Transportation	5971	8941	2997	15807	3802	8030	5108	50657
Communication & Services	5677	7205	2541	8858	3193	4883	4515	36872
Utilities	373	463	163	556	203	310	306	2372
Wholesale Trade	1472	1841	628	2217	791	1216	1125	9291
Retail Trade	16876	19462	7465	24725	8639	15290	12760	105217
Amusement & Recreation	2358	4121	1188	3998	1766	1650	1520	16600
Accom.& Food Ser.	14706	22264	11439	27277	14442	16115	14127	120371
Other Sectors	0	0	0	0	0	0	0	0
Total	56746	70697	26642	84300	33114	48048	41999	361546

Table A7

1983	Canadian-Owned	Foreign-Owned	Total
Hotels and Motels	2,591	8	2,599
Lodging Houses & Residential Clubs	94	0	94
Camping Grounds & Trailer Parks	826	2	828
Restaurants, Caterers & Taverns	11,005	17	11,022
Air Transport	196	4	200
Services Incidental to Air Transport	102	5	107
Railway Transport	24	6	30
Water Transport	71	10	81
Services Incidental to Water Transport	58	6	64
Bus Transport, Interurban and Rural	40	2	42
Urban Transit Systems	23	1	24
Taxicab Operations	547	0	547
Motion Picture Theatres	136	6	142
Theatrical and Other Staged Services	392	0	392
Miscellaneous Amusement and Recreation Services	2,491	3	2,494
General Merchandise Stores	1,577	9	1,586
Gasoline Service Stations	4,057	10	4,067
Shoe Stores	614	5	619
Men's Clothing Stores	866	1	867
Women's Clothing Stores	1,563	2	1,565
Clothing & Dry Goods Stores, miscellaneous	1,391	2	1,393
Drug Stores	1,488	3	1,491
Book & Stationery Stores	497	5	502
Jewellery Stores	835	1	836
Liquor, Wine & Beer Stores	13	0	13
Tobacconists	182	1	183
Retail, Miscellaneous	5,962	28	5,990

Source: Statistics Canada Special Data.

Table A8

	1978		Births	Deaths	1983	
Hotels and Motels	3,661	(50,079)	815	1,877	2,599	(45,103)
Lodging Houses & Residential Clubs	111	(402)	36	53	94	(621)
Camping Grounds & Trailer Parks	822	(3,652)	304	298	828	(3,901)
Restaurants, Caterers and Taverns	11,521	(134,537)	5,767	6,266	11,022	(146,255)
Air Transport	270	(11,742)	56	126	200	(12,861)
Service Incidental to Air Transport	119	(1,198)	56	68	107	(798)
Railway Transport	29	(35,175)	9	8	30	(29,142)
Water Transport	117	(4,248)	23	59	81	(4,100)
Service Incidental to Water Transport	100	(2,699)	13	49	64	(1,565)
Bus Transport, Inter-Urban & Rural	60	(2,408)	9	27	42	(1,536)
Urban Transit Systems	27	(12,995)	4	7	24	(14,790)
Taxicab Operations	850	(3,583)	249	552	547	(3,072)
Motion Picture Theatres	217	(4,090)	32	107	142	(4,657)
Theatrical & Other Staged Services	399	(1,071)	218	225	392	(1,379)
Misc. Amusement & Recreation Services	2,660	(19,919)	1,058	1,224	2,494	(23,237)
General Merchandise Stores	1,874	(101,270)	633	921	1,586	(102,407)
Gasoline Service Stations	5,230	(23,993)	1,492	2,655	4,067	(24,754)
Shoe Stores	629	(9,902)	219	229	619	(9,996)
Men's Clothing Stores	1,103	(10,195)	236	472	867	(10,448)
Women's Clothing Stores	1,698	(15,273)	624	757	1,565	(17,447)
Clothing & Dry Goods Stores, miscellaneous	1,501	(10,869)	597	705	1,393	(12,641)
Drug Stores	1,469	(16,057)	473	451	1,491	(19,111)
Book & Stationery Stores	515	(6,022)	206	219	502	(7,239)
Jewellery Stores	838	(8,220)	266	268	836	(7,427)
Liquor, Wine and Beer Stores	20	(10,423)	7	14	13	(11,145)
Tobacconists	197	(1,064)	73	87	183	(1,088)
Retail, miscellaneous	5,997	(30,009)	2,770	2,777	5,990	(33,617)

Source: Statistics Canada Special Data.

Profile of Hospitality-related Courses Offered by Canadian Institutions

Type of Courses								
	Travel/ Tourism	Recreat.	Hotel Motel Resort Mgt.	Food & Beverage Service Mgt.	Dietetic Nutrit.	Food Prep.	Food Beverage Service	Total
Institutions	23	32	30	9	9	33	15	161
Courses	36	37	43	22	9	99	25	274
Students Admitted	2,175	1,494	2,184	966	334	4,588	990	12,731
Graduates	1,040	830	1,267	280	215	4,167	791	8,590
Graduates Placed	675	518	879	153	134	2,337	575	5,271
Proportion of Graduates Placed	.64	.62	.69	.54	.62	.56	.72	.61

Source: Directory of Courses: Tourism/Hospitality/Recreation 1983-85

Tourism Tomorrow, Towards a Canadian Tourism Strategy.

PROFESSIONAL TRAINING AND UPGRADING

PROFESSIONAL TRAINING AND UPGRADING

PROGRAM TYPE

A Apprenticeship/ Pre-Employment
C Correspondence
D Day
E Evening
M Mini Course
P Post Graduate
R Refresher/Upgrading
S Seminar

DURATION

d - days
h - hours
m - months
n - nights
s - sessions
v - varies
w - weeks
x - training available
y - years
*Instruction given in French

	FOOD PREPARATION					HOSPITALITY MANAGEMENT			TRAVEL AND TOURISM					DURATION	
Educational Institutions	BAKING	COOKING	MEAT CUTTING/ BUTCHERY	DIETETICS/NUTRITION	FOOD AND BEVERAGE SERVICES	FOOD AND BEVERAGE MANAGEMENT	HOTEL/MOTEL AND RESORT MANAGEMENT	RECREATION/LEISURE	ATTITUDE TRAINING	TOURISM ADMINISTRATION	TOURISM MARKETING	RECEPTIVE TOURISM	TRAVEL COUNSELLING	Addresses	
ONTARIO														**ONTARIO**	
55) Algonquin College	D/40w E/10w E/12w	2D/30w D/20w 2E/10w 2E/12w	E/12w		D/15w E/15w		D/12w D/2y	2D/2y				E/12w	D/8m E/2y	1385 Woodroffe Ave. Nepean, Ont. K2G 1V8	55
56) Bracebridge and Muskoka Lakes Secondary School		2D/2y			AD/2y									P.O. Box 1690 Bracebridge, Ont. P0B 1C0	56
57) Cambrian College		2D/20w			D/15w D/10w									1400 Barrydowne Rd., Station A Sudbury, Ont. P3A 3V8	57
58) Canadore College		D/10w			D/15w	D/2y	D/2y	D/2y						P.O. Box 5001 1300 Gormanville Rd. North Bay, Ont. P1B 8K9	58
59) Carleton University Department of Geography											D/1-2y			Colonel By Dr. Ottawa, Ont. K1S 5B6	59
60) Centennial College						D/2y D/3y	D/3y	D/2y		D/3y			D/2y	651 Warden Ave. Scarborough, Ont. M1L 3Z6	60
61) Centralia College						D/2y								Huron Park, Ont. N0M 1Y0	61
62) Conestoga College		D/20w	D/20w		D/10w D/15w	D/2y		D/2y						299 Doon Valley Dr. Kitchener, Ont. N2G 4M4	62
63) Confederation College		D/20w					D/2y	D/2y		D/2y				P.O. Box 398, Station E Thunder Bay, Ont. P7C 4W1	63
64) Durham College					D/10w D/15w			D/2y						Simcoe St. N. Oshawa, Ont. L1H [illegible]	64
65) Fanshawe College		D/40w			D/10w D/15w		D/2y	D/2y					D/2y	P.O. Box 4005, Terminal [illegible] London, Ont. N5W 5H1	65
66) George Brown College	AD/30w D/40w	D/20w AD/40w D/30w D/2y	D/20w		D/15w D/10w	D/10w D/2y	D/12w D/2y							P.O. Box [illegible], Station B Toronto, Ont. [illegible]	66
67) Georgian College		D/20w			D/10w		D/2y							401 Duckworth St. Barrie, Ont. L4M 3X9	67
68) Guelph, University of						D/2y	D/4y							Guelph, Ont. N1G 2W1	68
69) Humber College							D/2y	D/2y					D/2y	P.O. Box [illegible] Rexdale, Ont. M9W [illegible]	69

Training Resources: Tourism/Hospitality/Recreation 1981 - 1983.
Canadian Government Office of Tourism, 1982.

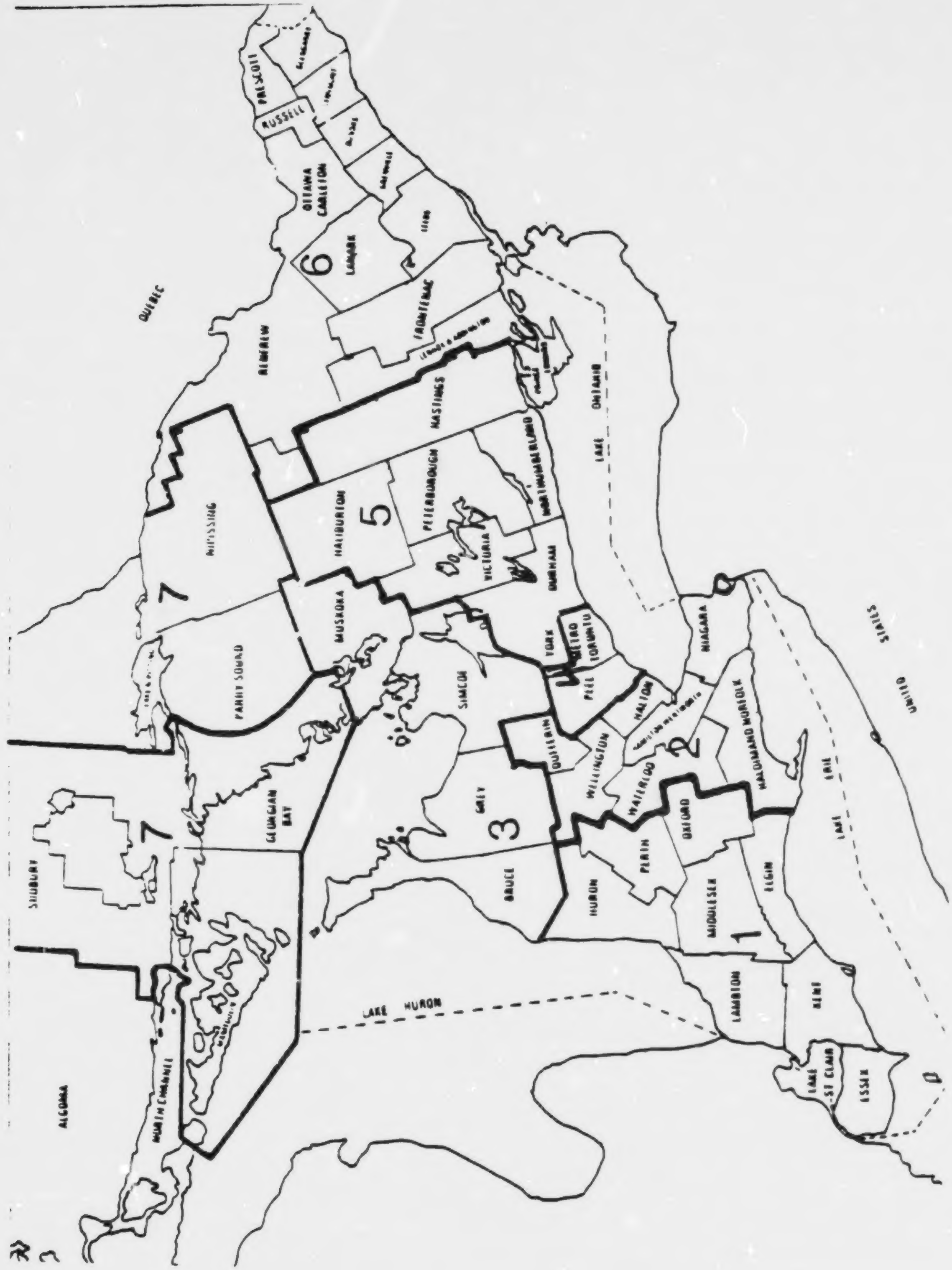
PROGRAM TYPE

A Apprenticeship/Pre-Employment
C Correspondence
D Day
E Evening
M Mini Course
P Post Graduate
R Refresher/Upgrading
S Seminar

DURATION

d - days
h - hours
m - months
n - nights
s - sessions
v - varies
w - weeks
x - training available
y - years
*Instruction given in French

	FOOD PREPARATION					HOSPITALITY MANAGEMENT			TRAVEL AND TOURISM						
Educational Institutions	BAKING	COOKING	MEAT CUTTING/BUTCHERY	DIETETICS/NUTRITION	FOOD AND BEVERAGE SERVICES	FOOD AND BEVERAGE MANAGEMENT	HOTEL/MOTEL AND RESORT MANAGEMENT	RECREATION/LEISURE	ATTITUDE TRAINING	TOURISM ADMINISTRATION	TOURISM MARKETING	RECEPTIVE TOURISM	TRAVEL COUNSELLING	Addresses	
70) Lambton College					D/15w									P.O. Box 969 Sarnia, Ont. K7T 7K4	(70
71) Loyalist College		D/10w			D/15w D/10w		D/2-3y							P.O. Box 4200 Belleville, Ont. K8N 5B9	(71
72) Mohawk College	AE/10w D/20w	E/10w D/20w			D/10w D/15w		E/10w	D/2y				E/6m	D/32w	135 Fennell Ave. W. Hamilton, Ont. L8N 3T2	(72
73) Niagara College		D/24w			D/15w		D/3y					D/2y		Rainbow Motel Centre 5755 River Rd. Niagara Falls, Ont. L2C 3K9	(73
74) Northern College							D/2y							Highway 101 East, P.O. Box 2002 South Porcupine, Ont. P0N 1H0	(74
75) Ottawa, University of								DE/4y						Department of Recreology 35 McDougall Lane Ottawa, Ont. K1N 6N5	(75
76) Ryerson Polytechnical Institute							D/3y E/14w DE/4y S/v						C/2y	50 Gould St. Toronto, Ont. M5B 1E8	(76
77) Sault College	D/40w	AD/30w D/32w D/40w	D/24w		D/15w	D/38w	D/2y D/34w	D/14w						P.O. Box 60 Sault Ste. Marie, Ont. P6A 5L3	(77
78) Seneca College King Campus								2D/2y					D/1y	Dufferin St. N. R.R. #3 King City, Ont. L0G 1K0	(78
79) Seneca College Finch Campus										D/3y E/14w			2E/6w	1750 Finch Ave. E. Willowdale, Ont. M2J 2X5	(79
80) Sheridan College							D/2y						D/1y	Trafalgar Rd. Oakville, Ont. L6H 2L1	(80
81) Sir Sandford Fleming College, Brealy Campus				D/2y		D/2y					D/3y			Peterborough, Ont. K9J 7B1	(81
82) St. Clair College		D/40w D/20w	D/40w		D/10w D/15w	D/2y							D/3y	2000 Talbot Rd. Windsor, Ont. N9A 6S4	(82
83) St. Lawrence College					D/10w									Portsmouth Ave., P.O. Box 6000 Kingston, Ont. K7L 5A6	(83
84) Waterloo, University of								D/4y PD/1y						Waterloo, Ont. N2L 3G1	(84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HALIBURTON
VICTORIA
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PARRY SOUND
YORK
METRO TORONTO
PEEL
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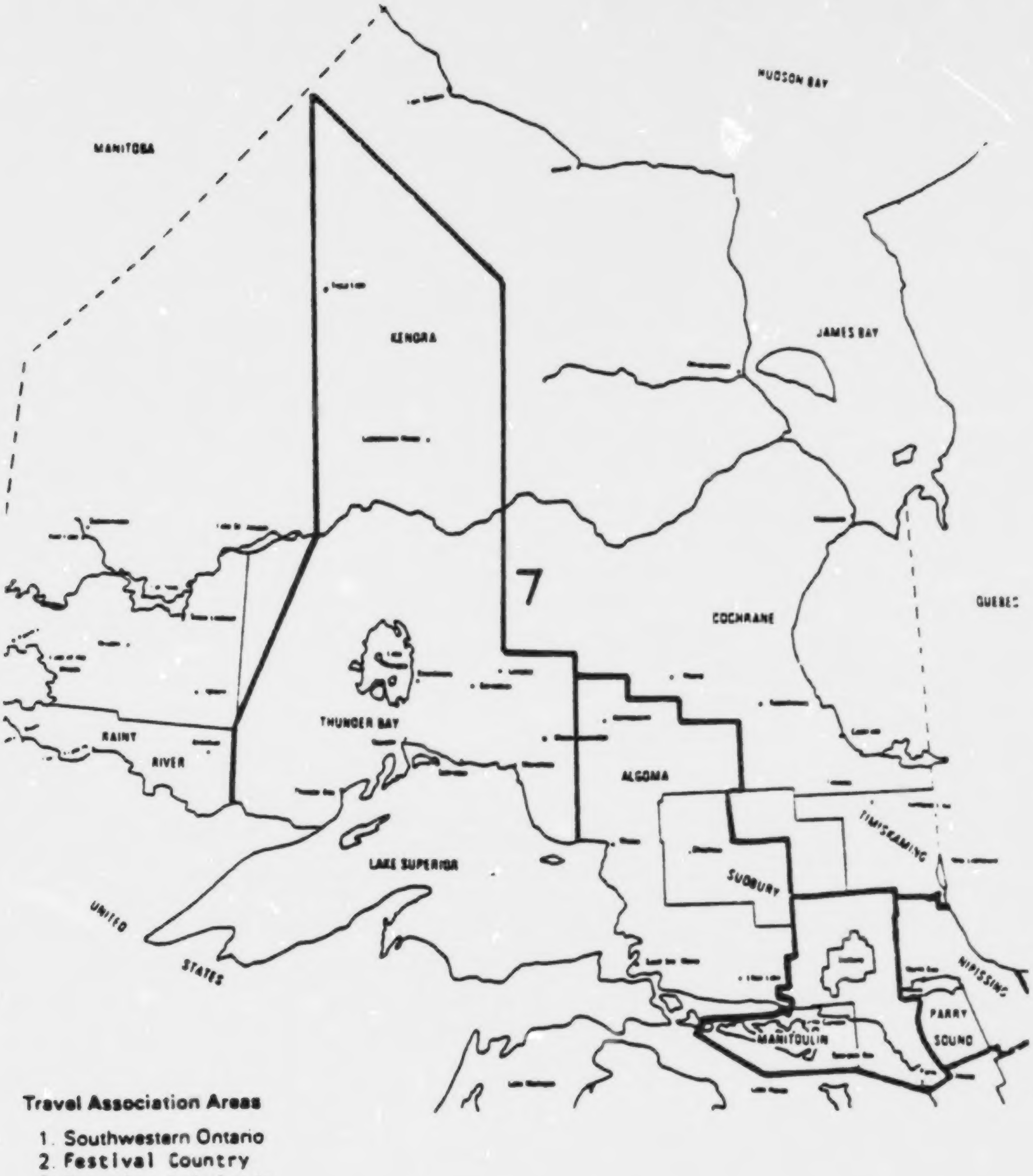
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KENORA
JAMES BAY
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QUEBEC
COCHRANE
THUNDER BAY
RAINY RIVER
ALGOMA
TIMISKAMING
LAKE SUPERIOR
SUDBURY
UNITED STATES
NIPISSING
MANITOULIN
PARRY SOUND

Travel Association Areas

1. Southwestern Ontario
2. Festival Country
3. Georgian Lakelands
4. Metropolitan Toronto
5. Central Ontario
6. Ontario East
7. Ontario North

TRADING HOUSES

DEFINITION

The Federal Task Force on Trading Houses* defined trading houses as "Companies which specialize in the exporting, importing and third-country trading in goods and services produced or provided by other parties, and which provide related services to these activities. These companies may act as merchants, agents, export manager, export consortia, export co-operatives, buying houses and procurement agents, or as a combination of the above. Companies acting principally as manufacturers, wholesalers, retailers, engineering firms, or freight forwarders, are not considered trading houses, unless they have established a separate identified unit specializing in trading in goods supplied by non-related and related companies."

There is a wide variety of types of trading houses; the most common are the following:

(i) an export management company managing all or part of the export function on behalf of manufacturers;

(ii) an export consortium owned by and managing the export function on behalf of consortium members on an ad hoc or ongoing basis;

(iii) an export co-operative managing the export function on behalf of co-operating members;

(iv) a corporate trading company responsible for the exports of the parent company and other products and/or assuming the parent's countertrade obligations when required;

(v) a buying house sourcing on behalf of offshore clients;

(vi) a procurement agent sourcing for offshore projects;

(vii) an export merchant buying and selling products on his own behalf;

(vii) an export agent acting on behalf of others on a commission and/or fee basis.

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* The federal government instituted a Task Force on Trading Houses in January 1984 to assess the importance of this sector to Canada, to evaluate its potential for developing Canadian exports and to identify measures which would enhance trading house performance in exporting Canadian goods and services.

Trading houses may carry out a combination of the above functions or type of activities and provide a variety of related services such as financing, international marketing consulting, management consulting, procurement consulting, manpower development and training, documentation, freight forwarding, licensing negotiation, and technology transfer. Some deal in specific commodities and end products while others may handle a wide commodity/product mix. Trading houses often specialize by geographical destination.

INDUSTRY STRUCTURE & STATUS

Number of Establishments

The Task Force estimated that in 1983 there were approximately 400 trading houses in Canada. Of the firms surveyed by The Task Force (between 183 to 201), Ontario was the leading location (45%) for trading houses. This was followed by Quebec (25%), and B.C. (15%).

Distribution of Trading Houses by Province

	Survey Trading Houses		Non-Survey Trading Houses		Total	
	No. of Firms	Export Trans. ($mil.)	No. of Firms	Export Trans. ($mil.)	No. of Firms	Export Trans. ($mil)
British Columbia	24	2,266	21	552	45	2,818
Ontario	91	2,702	45	1,382	136	4,084
Quebec	58	453	17	1,302	75	1,755
Other Provinces	28	1,109	16	1,908	44	3,017
Total	201	6,530	99	5,144	300	11,674

Source: Promoting Canadian Exports: The Trading House Option.
Trading House Task Force, 1984.

Employment

The Task Force estimated that this entire sector could employ approximately 6,000 people inside and outside Canada. Of the 176 Canadian controlled firms surveyed, approximately 2,264 were employed in Canada. Based on Ontario's share of the number of firms and its export performance, it can be estimated that trading houses employ approximately 1,000 people in this Province.

Average Number of Employees of Survey Trading Houses - Canadian Controlled

1982-83 (n=186)

Export Size Groups ($ Million)	No. of Firms	Average Total No. Employees In Canada	Average Total No. Employees Outside of Canada	Average Number of Traders In Canada	Average Number of Traders Outside of Canada
0.1 - 0.9	80	6	1	2	1
1.0 - 24.9	77	11	4	3	1
25.0 - 99.9	9	43	19	13	9
100.0 -1499.9	10	55	40	15	11
Total	176				

Source: Promoting Canadian Exports: The Trading House Option.
Trading House Task Force, 1984.

Firm Size

Very small firms (total exports between $0.1 to $0.9 million) account for 46% of all survey and non-survey firms but less than 1% of export transactions. Their main markets are Mexico, Central America and the Caribbean. They have each been in operation for an average of eight years and employ an average of six people in Canada and one abroad.

The small firms ($1 to $25 million) account for 39% of all firms and 5% of all export transactions. In addition to Mexico, Central America and the Caribbean, their markets include the Middle East and the EEC. They have each been in operation for an average of twelve years and employ an average of 11 people in Canada and 4 abroad.

The mid-size firm ($25 - $100 million) account for 6% of firms and 7% of export transactions. Their primary market is Japan (accounting for 38% of export transaction) followed by the EEC (21%). They have each been in operation for 31 years on average, and each employ an average of 43 people in Canada and 19 abroad.

The large firms ($100 million plus) account for 9% of firms and 87% of total sector transactions. Their main export destination is Japan (33%) followed by the EEC (19%). They have been in operation for an average of 24 years each and employ on average, 55 people in Canada and 40 abroad.

Estimated Value of Export Transactions by the Trading House Sector in Canada (=300)

Export Size Groups (in $mil)	Survey		Non-Survey		Total	
	No. of Firms	Vol. of Export Trans. ($mil)	No. of Firms	Vol. of Export Trans. ($mil)	No. of Firms	Vol. of Export Trans. ($mil)
0.1 - 0.9	89	35	49	14	138	49
1.0 - 24.9	84	430	32	198	116	628
25.0 - 99.9	12	625	6	246	18	871
100.0 - 1499.9	16	5,440	12	4,687	28	10,127
Total	201	6,530	99	5,145	300	11,675

Source: Promoting Canadian Exports: The Trading House Option.
Trading House Task Force, 1984.

It appears that there is a change in activities performed as the size of the firms changes. Very small firms focus on domestic and import activities to complement export. As the firms expand, exports take up a larger share of their activities. Smaller firms are also more oriented towards exporting inedible end products which are more labour intensive operations. In comparison, the large firms concentrate on the more commodity oriented products which involve international trading rather than international marketing skills. These products also have more capital rather than labour intensive requirements. Firm size also appears to be an indicator of particular export destinations; small fragmented markets such as the Caribbean are the prime target of very small and small trading houses. As these firms expand they move into more competitive markets such as the Middle East, the EEC and Japan.

Economic Performance

It would appear that the contribution of trading houses to exports has been underestimated. Total export transactions of the 298 firms contacted by the Task Force amounted to $11.675 billion in 1983. Of the firms surveyed a majority of the business transactions, 62%, represented exports. Domestic sales accounted for 16%, imports represented 14% and third country transactions accounted for 8% of total business transactions. It was estimated that trading houses accounted for up to 13% of all Canadian exports. More important - when the U.S. is excluded, trading houses accounted for 40% of all Canadian exports. Ontario accounted for 35% of trading house exports. This was followed by British Columbia at 24% and Quebec 15%.

Ratio of Trading House Sector Export Transactions to Canadian Domestic Exports by Destination

Destinations	Survey Trading Houses (n = 199)	Non-Survey Trading Houses (n = 99)	Total (n = 298)
United States	.02	.01	.03
E.E.C.	.19	.15	.34
Other Western Europe	.11	.07	.18
Eastern Europe	.06	.05	.11
Middle East	.21	.16	.37
Africa	.25	.22	.47
Japan	.43	.35	.78
Other Asia	.14	.12	.26
Oceania	.19	.18	.37
Mexico, Caribbean, Central America	.15	.10	.25
South America	.35	.30	.65
All Markets	.07	.06	.13
Non-U.S. destinations	.22	.18	.40
Non-U.S., non-Japan destinations	.17	.14	.31

Source: Promoting Canadian Exports: The Trading House Option. Trading House Task Force, 1984.

Trading houses play a significant role in Canadian exports to non-US. destinations. Approximately 78% of exports to Japan are through trading houses. Trading houses also account for a major portion of the exports to South America, Africa, the Middle East, Oceania and the E.E.C. However, trading houses are responsible for only 3% of exports to the U.S.

Client Composition

The types of trading houses are as diverse as the variety of activities undertaken by these establishments. The export performance of the sector reflects the industrial structure in that the strongest area is the primary commodity category of food, feed, beverage and tobacco where trading houses are responsible for 32% of Canadian exports. Other areas include inedible crude materials (22%) inedible fabricated materials (16%), and live animals (5%). Trading houses export only 1% of Canada's inedible end product exports. According to MITT sources the Japanese owned trading houses in Canada are moving away from the traditional commodity exports and into technology transfer.

It is mostly small and medium sized producers of these commodities that are the clients of trading houses. The very large firms tend to have their own in-house international marketing capabilities. The Task Force noted that the largest potential for the trading house sector and for Canadian exports lies in the small to medium-sized manufacturing sector.

Ownership

The Task Force found that 183 of the 201 trading houses surveyed were Canadian controlled and that these firms accounted for two-thirds of total export transactions. However, this left the foreign-controlled firms, which accounted for only 9% of firms, with one-third of total export transactions.

Distribution of Canadian and Foreign-Controlled Survey Trading Houses and Export Transactions, 1982-83 (n=201)

Export Size Groups (in $mil)	Canadian-Controlled		Foreign-Controlled		Percentage of Export Transactions by Foreign-Controlled Firms
	No. of Firms	Val. of Export Trans. ($mil)	No. of Firms	Val. of Export Trans. ($mil)	
0.1 - 0.9	85	33	4	2	6
1.0 - 24.9	78	390	6	40	9
25.0 - 99.9	10	502	2	123	20
100.0 - 1499.9	10	3,446	6	1,994	37
Total	183	4,371	18	2,159	33

Source: Promoting Canadian Exports: The Trading House Option.
Trading House Task Force, 1984.

It appears that on the whole, the Canadian controlled firms are small with 89.1% reporting exports transactions of less than $24 million. The foreign controlled firms tend to be larger firms with eight out of 18 reporting export transactions in excess of $24 million and six in excess of $100 million. The six foreign firms exporting in excess of $100 million accounted for 37% of the total transactions of this category, Japanese and European trading houses predominate. It must, however, be noted that there are 10 Canadian controlled firms in each of the $25-99.9 million and $100 million plus categories and that these firms account for a roughly proportionate share of total export transactions within their categories.

Foreign control does not appear to pose a problem in the trading house sector. The main activity of these firms is exporting Canadian goods usually to markets that Canadian manufacturers might have had difficulty in penetrating.

Geographic Distribution

Of the 19 Ontario firms listed as accredited trading houses by the Council of Canadian Trading Houses, one firm is located in Ottawa while the rest are in southern Ontario. The vast majority (16 out of 19) are concentrated in the Toronto area. There are no trading houses listed in the Council of Canadian Trading Houses directory, in Northern Ontario. There are northern Ontario trading houses listed in the Directory of Trading Houses published by DRIE, (The DRIE definition of trading houses is much broader) These trading houses appear however, to be very small firms.

Industry Trends

There are no reliable data regarding industry trends. It would appear that the number of firms are declining over time. The June 1981 Special Committee Report Canada's Trade Challenge reported that there were 600 trading houses in Canada. The Task Force found 400 in its 1984 report. However, the Business Opportunities Sourcing System (BOSS) computerized trade information system lists over 1600 firms which engage in some form of trading house activity. Of course, acceptance as a trading house depends on the definition of that activity. Firms are also constantly being created. Most of these are very small operations with two to three employees.

There is no data available regarding employment trends. The Task Force noted that 6,000 people may be employed by the 400 trading houses. Using this ratio one could estimate that there were perhaps 9000 employed by the 600 trading houses in the 1981 report. It is also possible, applying the same ratio to the BOSS directory to estimate that there may currently be as many as 24,000 people employed by firms engaged in some type of trading house activity. These estimates, however, appear too unreliable to break it down to the provincial level.

KEY ECONOMIC FACTORS AND INDUSTRY OUTLOOK

The trading house industry is a dynamic sector of the Canada/Ontario economy that is undergoing fairly rapid change. The overall number of firms appears to be decreasing. This is perceived as a positive trend by government and industry representatives. It is believed that there are too many firms and a shake out and consequent rationalization of the industry is highly desirable in order for it to mature. The number of new entrants is also very high. The vast majority of these are very small businesses which have been established by recent immigrants who see an opportunity to operate a limited import-export business between Canada and their country of origin. As these firms are established by entrepreneurs and not traders, the majority go under. Very few expand into the mid-size category.

The structural gap in the number of mid-size trading houses is a key weakness of the sector. Only 6 per cent of the firms are in the mid-size ($25 to $100 million) range and they account for 7 per cent of all sector transactions. In most industralized countries it is the mid-sized trading houses which represent the largest potential for export expansion. One explanation is that trading houses in Canada/Ontario are a relatively young industry. The average age of the small firms is only eight years. The few large firms have usually been in business for only 30 years. In comparison, the trading house tradition is very strong in Japan and Europe where it is not unusual to find establishments that have been in existence for more than 100 years. Consequently, one might expect that as the industry matures there will be an increased number of mid-sized and large trading houses in Canada/Ontario.

The difficulty in acquiring financing is a major stumbling block for the smaller firms. The problems in this area have, however, been recognized and some steps are being taken to remedy the situation. The banking community also appears to be becoming more aware of the needs of this sector. It is likely that as the service economy matures, lending institutions will alter their policies to accommodate these growing industries. However, government can play a leadership role in the interim in educating the private sector of the needs of trading houses, and where appropriate meeting the financial requirements of this industry.

The lack of government and industry recognition of the contribution of trading houses to Canadian exports has apparently slowed growth in this sector. The Task Force commented on this situation several times and concluded that growth in exports is "unlikely to increase until a major change of attitude takes place in the manufacturing community, in the banking sector and in government circles".

Another impediment to growth of the industry is the lack of trained experts. As mentioned before, many of the small firms are operated by entrepreneurs with little skill and experience as traders. It appears that this is an area which requires some training. In Europe the practice is to apprentice people in the trade at a fairly early stage. This produces traders who have acquired knowledge of the business of trading and the appropriate skills, especially negotiating expertise, of a trader. A similar (or any) training facility does not exist in Ontario. Trading houses in this province (country) apparently turn to Europe to acquire traders and there is an insufficient supply. Thus it is difficult for the industry to expand when there are not enough skilled traders in this province.

Expertise as a trader is not the only training that Ontario trading houses require. According to MITT, the question of credibility comes into play because some of these small trading house operators lack the business skills and knowledge to operate an import-export business. They also lack marketing skills. Most such firms will die a natural death, but providing an opportunity to acquire these skills could result in increased exports as these firms matured.

Another key factor which characterizes the trading house sector is the pattern in the destination of exports. The country of origin of trading house operators no doubt plays a significant role in determining the destination of exports. This is applicable to the large firms as well as the small trading houses. That Canadian trading houses do not export substantially to the U.S. has been explained as a result of geographical propinquity. Most manufacturers or producers can expand on their own into the U.S. with relative ease. It is the overseas market where the trading house services are most required.

The outlook for this industry appears promising. As a result of the Task Force some major problems have been overcome: A national industry organization has been established with an accredited trading house directory, a computerized information system has been developed, trading houses are being considered in government export programs and an appropriate financing system is being discussed. Discussions with industry representatives indicate that the industry is currently doing well, and as the recession receeds, the outlook is optimistic. There still, however, remain many areas where more work is required. While developing a reputable and reliable industry is largely the responsibility of the industry association, there are areas where government assistance is required.

STATUS IN OUTSIDE MARKETS

It appears that Canadian-controlled firms have an extensive network of offices and affiliates outside Canada. On the whole, they each average between one to two offices and affiliates outside the country. Survey data shows that among them these firms control a total of 96 offices and are affiliated with a further 262 offices around the world, mostly in non-U.S. markets.

In terms of employees the network outside Canada appears fairly impressive, especially for the large and mid-size firms. On average the number of employees outside Canada was roughly half the number of domestic employees for the mid size category and more than two-thirds (72.7%) the number of employees in the large firm category.

REGULATORY ENVIRONMENT

There is no specific legislation aimed at regulating trading houses. Trading houses have to follow the more general regulations regarding incorporation that are adhered to by most businesses.

Trading houses belonging to the recently formed (February 1985) Council of Canadian Trading Houses (CCTH) have to meet a number of criteria to qualify for membership. To become an accredited trading house, companies must have a proven track record. They must have been in operation for at least one year, references are required from two clients, two CCTH members, and one bank manager or professional person must attest to the fact that the trading house in question meets the CCTH definition of a trading house. There are currently only 41 trading houses on the CCTH list, but that number is expected to grow.

INDUSTRY POSITION

In the Task Force Report the trading houses noted that their primary concern was the need for an improved image of the sector. They believe their industry is a vital contributor to Canadian export transactions and that their contribution could be increased if they are given due recognition by government, the financial community, and prospective clients.

Discussions with industry representatives indicate that their concerns today remain relatively unchanged. The image problem with potential clients revolves around the belief that trading houses, as middlemen, take undue remuneration for their services. Another problem is that most manufacturers, particularly the small and medium-sized firms which could particularly benefit from the services of a trading house, are largely unaware of the functions of this industry. As well, the industry believes that government does not regard trading houses as credible business organizations. Governments are apparently wary of trading houses and will only deal with those that are very well established.

Other concerns voiced by the trading house sector are similar to those expressed by most service industries. Government programs which support exports are not apparently very helpful to the trading house sector, as they are primarily oriented toward the needs of manufacturers. Even the Ontario SBDC program is not very useful for trading houses. The major problems with the financial comunity, especially banks, is that their evaluation methods rely heavily on tangible assets, making it difficult for these knowledge intensive industries to acquire credit.

GOVERNMENT POLICY POSITION

The federal government instituted a Task Force on Trading Houses in January 1984 to assess the importance of this sector to Canada, to evaluate its potential for developing Canadian exports and to identify measures which would enhance trading house performance in exporting Canadian goods and services. The Task Force found that the trading house sector already made a significant contribution to Canadian export transactions and that the potential existed for increasing exports. The Task Force made twenty-nine recommendations which could strengthen the trading house industry (see appendix).

The first and foremost recommendation was that an industry association be created which could, among other things, improve the image of trading houses. As a result the Council of Canadian Trading Houses was established. The recommendations regarding the financing needs of trading houses were not immediately met by government or the financial community. However, it appears that some sort of financing program is presently being developed by the government, in consultation with the industry. No details were available but an announcement regarding the program is expected to be made within a few weeks. Recommendations were also made to give consideration to the needs of trading houses in all government export related programs.

Ontario has no clearly articulated policy position on the trading house industry. Currently the Export Consulting and Advocacy branch in the Trade Division of MITT deals with the trading house sector. The CCTH noted that Ontario has been helpful by recognizing their accreditation process and working with those trading houses recommended by the CCTH.

ASSISTANCE CURRENTLY RECEIVED

There are several federal and provincial government programs aimed at developing exports of Canadian goods and services. At the federal level the most well known is the Program for Export Market Development (PEMD). There is also the Promotional Projects Program (PPD), the various trade commissions in different countries, the Export Development Corporation (EDC) and the Canadian International Development Agency (CIDA).

While most of these programs would seem well suited to promoting the trading house sector it appears that in reality this is not the case. From 1980-1984 trading houses, agents and representatives accounted for only 5 per cent of the applications and 3 per cent of PEMD funds. In comparison, manufacturers accounted for 42.6% of all applications and received 63% of all PEMD funds. This amounted to $0.79 million for trading houses versus $26.50 million for manufacturers. Trading houses participated only marginally in the Promotional Projects Program. In 1983-84 it was estimated that fewer than 50 trading houses participated in trade missions abroad, and only 20 participated in incoming missions. This was out of a total of 1,400 companies participating in various Promotional Projects Programs.

The services provided by the Export Development Corporation were found to be largely inadequate in meeting the needs of trading houses. Small and medium sized firms do not utilize EDC services and those firms that do identified problems in the area of bid/performance guarantees, credit insurance, working capital, pre-shipment and post-shipment financing and small-value sales financing. Again, the difficuties experienced by trading houses are similar to those experienced by other service industries in that they continue to be assessed in terms of "seizable" assets. In the pre-shipment coverage area, the EDC has not pursued it for trading houses precisely because of this issue. In addition, medium-term guarantees, which are available to manufacturers are not provided for trading houses. The procedures used by the EDC for insurance services and financing were generally found to be too time consuming for the trading house sector.

Very few trading houses have been involved with CIDA activities. Of the 923 contracts (valued at $148 million) awarded by CIDA in 1983-84, only 5 contracts valued at $0.5 million went to trading houses. The Task Force noted that CIDA could benefit substantially by becoming more involved with trading houses, due to their almost exclusive orientation toward non-U.S. markets. Trading houses could bring to CIDA valuable familiarity with these markets, awareness of consumer and client needs, and expertise in local distribution and international transportation. Trading houses could also provide substantial assistance in the whole area of delivery of after sales and maintenance services. Trading houses could gain access to foreign markets through CIDA. Greater cooperation was consequently recommended by the Task Force.

Trading houses have had mixed experiences with the Trade Commission Service. Trading houses are regarded as uncertain operations by some trade commissioners. Trade Commissions noted that many trading houses did not present themselves as credible organizations, as they lacked the management and financial expertise required for recommendation to potential clients.

Trading houses are eligible for all the export development programs in the Ontario government. They are also eligible for the SBDC program. Again, it appears that trading houses are not actively involved in the export development programs. Very few trading houses have taken part in trade missions, or fairs. There are, however, changes being made in the orientation at the Trade Branch, and more active involvement of trading houses could occur in the near future. The SBDC program is not utilized much by trading houses because the limit of $50,000 is regarded as too low and the entire process too time consuming for trading houses, where deals are negotiated and executed very quickly.

POLICY OPTIONS

The following is a brief outline of areas where government involvement in developing the trading house sector may be appropriate:

1. Training. Ontario government assistance in establishing a training program for traders would assist the industry in general. There is also a need for ongoing training, especially for the small business and mid-sized trading houses.

2. Active involvement of trading houses in the various government export programs is desirable. This would not only give trading houses an opportunity to explore new off-shore markets, but it would provide an opportunity for Ontario manufacturers to become more familiar with the functions of a trading house.

3. The Task Force recommended that the federal government review all government trading and marketing agencies to determine if their activities could, if appropriate, be undertaken by the private trading house sector. The Ontario government could study its own trading and marketing agencies to see if a similar change is appropriate.

Sources

Promoting Canadian Exports: The Trading House Option. Trading House Task Force, External Affairs, 1984.

Canada's Trade Challenge. Special Committee on a National Trading Corporation, Ottawa, 1981.

Mr. Van Camp Services Industries Branch DRIE	613-954-2987
Mr. Davor Martinowich Export Consulting & Advocacy Trade Branch MITT	963-3346
Nancy Klein Quebec Association of Export Trading Houses	514-286-1042
Mike MacDonald Director of Trading Houses & Counter Trade Canadian Export Association	Ottawa 238-8888

APPENDIX

SUMMARY OF RECOMMENDATIONS

Recommendation 1

A national grouping of trading houses be established with a rigorous accreditation procedure

Recommendation 2

The national grouping and any related regional representations undertake activities (seminars, workshops, conferences) aimed at promoting the services offered by the sector to interested parties such as manufacturers, producers, and their respective trade associations, banks and government departments and agencies

Recommendation 3

The level of action and profile of the existing trading house division of the Canadian Export Association be used as a base for increased activity and the development of strong regional representation within a national grouping

Recommendation 4

Canadian banks establish, within their regional international financial centres, a focal point for trading houses, staffed with personnel knowledgeable in international trading operations

Recommendation 5

Canadian banks re-evaluate their processes for extending credit to trading houses, recognizing that the criteria which they apply to other sectors such as manufacturing are not relevant to companies engaged primarily in international trade

Recommendation 6

The Department of External Affairs introduce a special section for trading houses in the Program for Export Market Development which would cover sustained market development activities abroad and domestic expenses relating to the development of Canadian sources of supply for a period of up to three years

Recommendation 7

The Department of External Affairs amend its Program for Export Market Development administrative guidelines to allow established trading houses to apply for other sections of the program on the basis of demonstrated capacity, experience and product knowledge without the requirement for a specific contractual arrangement with a supplier

Recommendation 8

The Department of External Affairs remove restrictions from the Program for Export Market Development concerning the number of market visits allowed in one year by a trading house to a new market

Recommendation 9

The Department of External Affairs undertake to include trading houses more regularly on sector-specific trade missions composed of manufacturers and producers and in other Promotional Project Program activities

Recommendation 10

The Department of External Affairs issue a clear departmental instruction to personnel in Canada and abroad that trading houses be treated on an equal basis in terms of policies, programs and assistance with other exporters

Recommendation 11

The Department of External Affairs undertake to put in place without delay a world class Trade Opportunity Information System

Recommendation 12

The government examine the resources of the regional offices of the Department of Regional Industrial Expansion devoted to assistance and support of the trading house sector to ensure that they are adequate to cover the needs of this sector given its importance

Recommendation 13

The government establish a highly visible focal point within the appropriate Department(s) with specialized expertise on the Canadian trading house sector to be responsible for promoting the sector both domestically and internationally

Recommendation 14

The Canadian Commercial Corporation stringently adhere to its procedure for avoiding competition with Canadian exporters and that it continue to restrict itself to government-to-government transactions

Recommendation 15

The Canadian Commercial Corporation (CCC) establish a focal point for dealing with trading houses and not make distinctions between trading houses and manufacturers when opportunities arise that the CCC wishes to pursue or when issuing invitations to tender

Recommendation 16

Trading houses register their interests with the Canadian Commercial Corporation (CCC) in order that CCC might consult with them when relevant business opportunities come to CCC's attention

Recommendation 17

The government review the operations of all state trading and marketing agencies to determine if their activities are consistent with their original intent, if public policy objectives still require the agency to have a trading capacity, and if the agency could not be replaced by the trading house sector

Recommendation 18

Government state trading and marketing agencies be required to access all Canadian marketing tools and facilities available to ensure their maximum performance on behalf of the producers they serve

Recommendation 19

The Export Development Corporation (EDC) provide short-term guarantees on a shipment as well as a contract basis covering 90 per cent to 95 per cent of both commercial and political risks associated with the exports. The balance of 5 per cent to 10 per cent should be carried by the commercial bank, the trading house, or the manufacturer (or a combination of same) without EDC's concern

Recommendation 20

The Export Development Corporation provide medium-term guarantees to banks regarding financing on a non-recourse basis, for an amount equivalent to 85 per cent of exports to support trading house activities.

Recommendation 21

The Export Development Corporation provide guarantees to banks issuing bid and performance bonds to foreign buyers on behalf of trading houses when experience and reputation warrant it.

Recommendation 22

The Export Development Corporation, banks and the recommended trading house association co-operate in streamlining EDC procedures to facilitate routine handling and faster processing of trading house applications.

Recommendation 23

The Export Development Corporation establish a focal point to develop expertise on small and medium-sized trading houses to enable the refining of their programs to meet the specific needs and peculiarities of these trading houses.

Recommendation 24

The Canadian International Development Agency establish a focal point for dealing with trading houses and a registration procedure for trading houses separate from the existing procedure already in place for engineering and consulting firms.

Recommendation 25

The Canadian International Development Agency seek the expertise of the appropriate government departments and of a representative body of the trading house community in order to develop selection criteria for trading houses.

Recommendation 26

The Canadian International Development Agency treat trading houses on an equal basis with other suppliers for procurement contracts.

Recommendation 27

The Canadian International Development Agency ensure that trading houses are invited to tender on food assistance procurement projects on an equal basis with other suppliers when sole sourcing is not an obligation.

Recommendation 28

The recommended association of trading houses play a role in disseminating information on small and medium-sized trading houses that can assist Canadian exporters faced with countertrade demands.

Recommendation 29

The government maintain and publicize a countertrade focal point to monitor and disseminate information on countertrade, and to provide basic advice and referral services to exporters. In addition, it should identify, in co-operation with the recommended association of trading houses, the abilities of Canadian trading houses to enable them to play a more effective role in a countertrade capacity.

Recommendation 30

Legislation be amended or introduced to allow Canadian chartered banks to own and operate up to 100 per cent of trading houses which may take title to goods for a temporary period for trade purposes.

Recommendation 31

Companies in Canada's distributive trade examine their potential for increased involvement in exporting through the use and formation of trading houses.

Recommendation 32

The government review the competitive position of Canadian exporters with respect to export tax incentives available to exporters in other countries and introduce measures to match these benefits.

TRANSPORTATION

DEFINITION

Transportation services involve the movement of goods and people. The transportation sector consists of the following 3-digit Standard Industrial Classification (SIC) categories: air transport (501); services incidental to air transport (502); railway transport (503); water transport (504); services incidental to water transport (505); truck transport (506, 507); bus transport, interurban and rural (508); urban transit systems (509); taxicab operations (512); pipeline transport (515); highway and bridge maintenance (516); miscellaneous services incidental to transport (517); and other transportation (519). This report will focus on air, water, railway, truck and bus transport.

Each of these major transportation sectors consists of distinct sub-sectors. The air transport industry covers companies in international/national scheduled and charter services, local/commuter operations, and specialty services. The principal sub-sectors in the water transport industry are coastwise shipping, international shipping, charters, sightseeing carriers, government carriers and private carriers (companies involved in the transport of goods or passengers for their own or parent or affiliated company). The railway transport industry includes freight services, non-commuter passenger services, and commuter services. The truck transport industry consists of inter-city motor carriers, international carriers, interprovincial, local and off-highway motor carriers. The statistics and the discussion do not deal with the following truck transport segments: courier and messenger services and armoured car services. Finally, the passenger bus industry covers establishments engaged in interurban and rural bus operations, school bus service, sightseeing services, charter services and limousine services to airports and stations.

INDUSTRY STATUS

Output

Three major observations stand out with respect to the transportation industry. First, the transportation sector plays an integral role in the economy with its multi-faceted linkages: moving goods and people; and supporting important manufacturing industries with its infrastructure and equipment requirements. Second, the transportation sector, independent of its linkages, is a major component of the economy. For example, in 1985 transportation services accounted for 6.4% of GDP in Canada. In the Ontario economy, transportation services accounted for just over 5% of GDP in 1985. Third, as the GDP shares suggest, the transportation sector is disproportionately small in the Ontario economy. While Ontario generates 43% of the national output (GDP) of the goods-producing industries, Ontario generates only 32% of transportation services output in Canada. The under-representation of transportation services in the Ontario economy can be explained by the fact that in the air, water, rail and bus sectors several of the leading companies have their headquarters and, in several cases, their maintenance facilities as well, located in some other province in Canada.

In 1984, the modal shares of transportation services output in Ontario were as follows: truck and bus - 37%; air - 31%; rail - 23%; pipeline - 5%; and water - 4%. The latter figure is somewhat surprising in light of the fact that there are 57 ports in Ontario that have access to the St. Lawrence Seaway. The under-representation of transportation services in the Ontario economy is most notable in the water, pipeline and rail sectors where GDP produced in Ontario accounted for only 14%, 17% and 21% respectively of total Canadian GDP in these sectors. Ontario generated 37% of the GDP in the air transport sector and 43% in the motor transport sector in 1984.

Companies

According to special Statistics Canada tabulations, there were 7,036 establishments engaged in transportation services in Ontario in 1983. Most of these establishments were in the truck transport sector (3557), and miscellaneous services incidental to transportation and other transportation services (2305). There were 200 companies in air transport (with another 107 in services incidental to air transport); 30 in railway transport; 81 in water transport and 42 in bus transport. In each of these sectors, a small number of companies dominated. For example, in air transport Air Canada, CP Air (including Nordair), American Airlines, Wardair and City Express are the major carriers. Only the last two are Ontario-based. In rail transport, CN and CP dominate on the freight side, followed at a distance by Algoma Central and Ontario Northland. Again, only the latter two are Ontario-based. On the passenger side, VIA, GO Transit and Ontario Northland are the principal companies. Four companies (Canada Steamship Lines, ULS International, Algoma Central Railway, and Misener Shipping - only Canada Steamship has its headquarters outside of Ontario) accounted for 53% and 67% of the Canadian-owned Great Lakes carrier vessels and tonnage capacity respectively in 1984. In the bus transport sector, Greyhound, Voyageur and Gray Coach (the only one of the three that is Ontario-based) are the major line-run operators. Other significant companies in this industry are Charterways, GO Transit, Ontario Northland, and Travelways. All of these are Ontario-based.

Employment

In August of 1985, there were 147,400 people employed in the transportation services sector in Ontario. This represented 3.9% of the total level of employment in Ontario at that time. The major areas of employment were truck transport - 37,000; railway transport - 24,100; highway and bridge maintenance - 19,500; urban transit - 15,800; and air transport - 11,500.

Employment in the transportation services sector in Ontario accounted for 31.5% of total employment in this sector across Canada. This proportion is in line with Ontario's share of transportation GDP. Ontario's shares of employment in the air, water, rail and truck transport sectors were 24%, 17%, 25% and 34% respectively. Data were unavailable for the bus transport sector from the source used for the above data. However, according to a special Statistics Canada tabulation, Ontario's share of employment in the bus transport industry in 1983 was 25%. (See Table 1, page 423)

Wage Levels

In August of 1985, the average weekly earnings of all employees (full-time and part-time, salaried and hourly wage workers) in the transportation sector in Ontario were $479 ($25,000 per annum). This was 12% greater than the average weekly earnings for all employees in Ontario, and 23% greater than the earnings of all service sector employees in the province. However, these earnings were 4% lower than the average for all transportation employees in Canada. The average weekly earnings for all employees in Ontario was 1% greater than the corresponding average for all employees in Canada. And the average weekly earnings for all service sector employees in Ontario was equal to the average for the corresponding group of workers across Canada.

The weekly earnings ranged from $456 in the truck transport sector to $620 in the water transport sector. Earnings in most of the transportation subsectors were 30% or more above the average weekly earnings for all employees in Ontario. Obviously, the transportation sector is not a haven of low-wage jobs, although it has been suggested that government regulation has been responsible for the above average wage levels.

Foreign Ownership

With the exception of bus transport (27% of FYE employees employed in foreign-controlled firms in 1983) and services incidental to air transport (29% of FYE employees in foreign-controlled firms), foreign ownership levels do not appear relatively high, at least in comparison with the manufacturing and resource sectors. (The above foreign-controlled figures are Canada-wide totals since the corresponding figures for Ontario were unavailable in the special Statistics Canada tabulations). Where Ontario data are available, it appears that the levels of foreign ownership/control are marginally higher in Ontario than in the rest of Canada. (See Table 2, page 424)

Births and Deaths

Many sectors experienced declines in the levels of FYE employees between 1978 and 1983. The largest proportionate declines occurred in the following sectors in Ontario: services incidental to water transportation - 42%; bus transport - 36%; services incidental to air transport - 33%; railway transport - 17%; and truck transport - 15%. Of the major sectors focussed on in this report, only air transport recorded an increase (10%) in FYE employees in Ontario between 1978 and 1983. With these exceptions (air transport, highway and bridge maintenance, and other transportation - see Table 3, page 425), the employment declines were larger in Ontario, or the employment gains were smaller than in the rest of Canada.

While birth rates were quite high in most of the transportation sectors, considering the high levels of concentration in most of the sectors (birth rates are defined as the proportion of firms in 1983 that were newly created between 1978 and 1983), death rates were even higher in most industries (death rates are defined as the proportion of firms in 1978 that were no longer in operation in 1983). The death rates exceeded 45% in air transport and incidental services, water transport and incidental services, truck transport, bus transport and bridge and highway maintenance. Newly created firms accounted for significant shares of FYE employment in 1983 in only two of the major sectors: services incidental to air transport - 12%; and truck transport -7% (see Table 4, page 426)

INDUSTRY TRENDS

Aggregate Trends

FYE employment declined in many sectors between 1978 and 1983. Since the demand for transportation services is a derived demand from aggregate economic activity and trade, part of the employment decline is the result of an incomplete recovery from the 1981-82 recession. This factor by itself cannot account for the magnitude of the employment losses in several of the sectors. Part of the employment declines can be explained by the longer-term, continuing efforts to increase productivity and improve efficiency by adopting new technologies and streamlining operations. These efforts may have been accelerated by reactions to the deregulation of sector after sector in the U.S. and the resulting increasing competitive pressures from U.S. based transportation companies, and/or the expectation of further liberalization of the transportation sectors in Canada and Ontario. Part of the declines in specific sectors, most notably rail, water and bus transportation, may also be the result of inter-model shifts in demand and competitive positions.

There have been dramatic inter-modal shifts during the past 20 years. Rail's share of freight movements in Canada has declined from 43% in 1965 to 36% in 1984. Marine's share has also dropped, but much more modestly from 43% to 40%. In th meantime, trucking has flourished, increasing its share from 14% to 23%. Resource commodities, moving in bulk by rail or ship, still represent a significant volume of Canada's domestic and international freight flow. However, trucking has captured some of this market, as well as a signifcant share of the traffic in goods of higher value and lower bulk. In addition, the amount of air freight is increasing substantially, particularly for high-value or time-sensitive goods.

In domestic, inter-city passenger traffic, the automobile has increased its dominance with its share rising from 76% in 1965 to 85% in 1984. Both rail and bus have seen their shares fall - rail from 4% to 2%; bus from 18% to 9%. Air carriers, with their greater diversity of services, have increased their share from 2% to 5%. A Transport Canada economic analysis of prospects for transportation services in Ontario (October 1985) expects these trends in inter-city passenger traffic to continue. Rail traffic is expected to grow moderately due to real increases in rail fares reflecting improvement in service levels and a policy of subsidy reduction. The growth of bus travel is expected to be moderate reflecting limited scope for service improvements relative to other needs. On the other hand, growth of automobile and air travel is anticipated to be strong as a result of moderating fuel prices and the impact of deregulation on air fares.

Industry Specific Trends

Water Transportation

Not only has freight traffic on the Great Lakes segment of the Seaway not increased as expected, but also, if the effects of the 1981-82 recession are removed, freight traffic has been in a secular decline since 1979. Consequently, a MTC official in the marine transportation office has pointed out that the Seaway is currently under-utilized.

The major commodities transported by ship through the Seaway are grain, iron ore and coal. In all three commodities the competitive position of the Great Lakes fleets has been seriously undermined. For example, the Western Grain Transportation Act established a pricing and subsidy scheme that favours the movement of grain to the west coast by rail and then to foreign markets by ship rather than through the Great Lakes. As well, U.S. grain exports via the Seaway have declined during the past four years as a result of low barge and rail rates (the result of deregulation in the U.S. and excess capacity) via the Mississippi river system. Indeed, as noted in the "Ontario Ports Study" for MTC and Transport Canada (July 1984), deregulation in the U.S. has sharpened the competitive struggle between alternative routes and modes of transportation for grain, coal and containerized cargo.

Rail Transportation

In order to improve their efficiency and productivity, CN and CP have become more specialized towards the transporting of bulk commodities. While this has produced large increases in productivity, it has also opened up new opportunities for trucking, so the railway's share of freight traffic has declined. Deregulation of the railway industry in the U.S., with the passage of the

Staggers Rail Act in 1980, has had an adverse impact on the Canadian railroads. American railroads, by being able to provide a wide range of services and enter into confidential contracts, have been able to increase their share of transborder freight movements.

Bus Transportation

The Nielsen Task Force on transportation emphasized that VIA Rail's subsidized fares have had an adverse effect on private bus operators on competitive routes (notably, the Windsor-Montreal corridor) and this has resulted in insufficient returns for the bus industry to invest in product and service improvements. The liberalization of the air carrier industry has led to increased competition for bus companies both on the corridor routes and on some off-corridor routes towards the north and in the north.

Truck Transportation

While the share of freight traffic carried by trucks has increased during the past 20 years, within the trucking industry the most rapid growth during the past 15 years has occurred in the unregulated private trucking segment and the partially regulated trucking intermediaries. In Ontario, the market share of private trucking has risen from 40% in 1971 to 55% in 1983, while the market share of the regulated, for-hire segment has decreased accordingly. Two other trends were noted by the Ontario government Public Commercial Vehicles Act Review Committee in its final report (1983): larger companies in the industry and more professional management.

Air Transportation

The liberalization of entry rules in 1984 has led to a significant increase in the number of routes, the number of carriers and frequencies of services in Ontario. For example, between May 1984 and May 1985, 14 route applications for service within Ontario were approved by the Canadian Transport Commission (CTC). Most of these involved small local/commuter carriers such as Austin Airways, Bradley Air, Rog Air, Torontair, Pem Air and Air Niagara. During the past several months 5 new companies have announced intentions and have received approval to commence operations within Ontario - Inter-City, General Aerospace, MIT Flight Executive, Skycraft and Trillium. As a result, several communities throughout Ontario have received or will receive scheduled service for the first time.

INDUSTRY OUTLOOK

Problems/Opportunities - Overview

The outlook for the transportation services industry in Ontario has been affected dramatically by the deregulatory moves in the transportation sectors in the U.S. during the past decade and the resulting spillover into the Ontario market, and the regulatory and subsidy environment in Canada and Ontario. The outlook for this industry in Ontario will be affected quite significantly in the future by the direction and outcome of free trade negotiations with the U.S., and the direction of liberalization of the transportation sectors in Canada. As noted by an official in MTC's goods distribution office, opportunities in the transportation services industry will depend upon the scope and timing of regulatory reform, the exent of free trade with the U.S. and the degree of integration with the U.S. economy, and Canada's role as a supplier of resources, especially grain. Furthermore, this same person emphasized that in evaluating the impacts of these and other changes on the transportation sector, one should not be overly concerned with employment losses in this sector, if these losses are the product of large productivity gains that lead to significant transportation cost reductions which in turn increase the competitiveness of Canadian manufacturers and thus the number of jobs in this sector.

Deregulation in the U.S.

In 1977 entry into the air cargo industry was deregulated. In 1978, the airline industry was deregulated. The trucking and railway industries were deregulated in 1980. As a result of these measures and their effects on the transportation sectors in the U.S., Transport Canada, in its economic analysis of transportation services in Ontario, concluded that Ontario "competing with the industrial heartland of the U.S., needs a regulatory system that will allow its transport sector to adjust to the rapidly changing needs of its economy and meet the challenge of a rejuvenated U.S. deregulated transportation system." Whether or not this study's conclusion is correct, Ontario cannot escape the political and economic effects of the deregulation of the U.S. transportation system.

U.S. deregulation has resulted in a diversion of the transport of transborder and other international freight traffic from Canadian to U.S. carriers. The CTC investigation into the effects of U.S. rail deregulation commented in its preliminary report that Canadian railways claimed revenue losses in the tens of millions of dollars as a result of U.S. railway diversions or attempted diversions of traffic. An MTC official pointed out that shipments from North America can move through U.S. or Canadian ports. Consequently, deregulation in the U.S. has led to a diversion of traffic from Canadian railroads and the Seaway to U.S. railroads. The Commons Standing Committee on Transport stated in its sixth report that we "do not see how our railways can compete effectively with U.S. railways for transborder traffic unless they are permitted to negotiate confidential contracts."

U.S. deregulation of trucking has produced similar diversions of traffic. A MTC study found sharp discrepancies in rates between Toronto and U.S. points and Buffalo and the same U.S. points. Thus, Ontario-based companies (users of truck transportation services) have been using private truckers or intermediaries to transport their goods to terminals in Niagara Falls, U.S. or Buffalo to be transferred to and shipped by U.S. trucking companies. Many small shippers in Ontario that for one reason or another have not been able to arrange for the private shipment of their goods to U.S. border points have found that the significant differences in freight rate costs have impeded their ability to export to the U.S. market.

A comparative study of the "Services and Cost Competitive Position of Toronto Area Air Freight Shippers", undertaken for MTC (March 1985) concluded that as a result of the deregulation of the air cargo industry in the U.S.:

- Toronto's overall air cargo service access to North American and overseas markets is restricted in comparison with access available at important U.S. air export centres;

- Deregulation of air cargo rates in the U.S. has served to render Toronto area exporters less price competitive than their U.S. competitors.

- Toronto's air service deficiences, in combination with non-regulated airline and forwarder pricing in the U.S., are causing a diversion of Ontario traffic to U.S. airports, thus eroding the traffic base needed in Toronto to develop new direct air services.

Regulation/Subsidization in Canada and Ontario

Regulation of interprovincial and intraprovincial trucking was ceded by the federal government to the provincial governments in 1954. Two significant problems have resulted from this. Trucking regulations are not uniform across Canada and as a result it has become increasingly more complex and difficult to transport goods by truck across provincial boundaries. With any set of regulations, there exist loopholes, and the number and importance of these loopholes increase over time if the regulations are not changed in line with changing economic and technological circumstances. Regulation of trucking by the government of Ontario has not been an exception to this. The PCV Act review committee noted that the "incentives to bend the rules or find loopholes are enormous."

The most rapidly growing areas within the truck transportation sector have been private carriers, leasing, couriers, transportation brokers and contract services. All of these services have developed in order to escape the restrictions of regulation and there has been a great demand for such services. Some of these services are technically illegal under the current regulatory system. However, in moving to close loopholes or eliminate them with exemptions, greater problems of detail and complexity have been created. Moreover, detection and prosecution of offenders under current legislation is difficult and expensive.

According to an MTC official, inconsistencies and inequities have developed in the regulation of inter-city bus transportation services, another area regulated by the provinces, since the regulations have not been changed since the late 1940s. Licenses do not specify a minimum level of service; hence many communities are poorly serviced. Although the system in Ontario is supposed to be structured so as to create cross subsidies from major line route services and charters to rural services, there is little information available on the extent of the cross subsidies or the success of this system in providing adequate services to smaller communities throughout the province. As well, many unlicensed companies are operating on the border of the regulatory system, sometimes overstepping the boundary and engaging in illegal practices.

The increasing degree of intermodal competition both in freight and passenger traffic is creating further pressures on the current system of federal regulation of rail, air and water transportation, and provincial regulation of truck and bus transportation. For example, truck companies want to operate larger trucks. Railroads complain that the use of larger trucks will undercut them. Furthermore, the railroads complain that they face unfair competition with the trucking industry since they pay the full cost of their rights of way; whereas, truck companies do not cover the full costs of maintaining the highway system. On the other hand, as pointed out earlier, the subsidization of VIA has had negative effects on the inter-city bus industry.

Free Trade

Likely implications of a Canada-U.S. free trade arrangement regarding the transportation industries would include:

- Ontario and Canadian fleets on the Great Lakes would likely increase their share of the market for lake carrier services, but this market would likely decline if several bulk commodities, especially grain, were moved north-south rather than east-west. The commercial viability of the Great Lakes/Seaway system could be eroded by such traffic diversions.

- If new trading arrangements resulted in an increased volume of goods moved both ways, there would be an increased demand for trucking services. Ontario truckers, however, would likely have a diminishing share and volume of business since they face geographical and financial disadvantages relative to U.S. truckers.

- Canadian rail carriers should be able to compete successfully with U.S. rail. But the trade arrangements could erode the long-haul east-west traffic and increase the shorter-haul north-south movements. This could threaten the economic viability of the east-west rail infrastructure in Canada.

- Lower air fares and competition from U.S. buses on profitable charter and line run operations could reduce the profitability of Ontario companies and so diminish their ability to service smaller communities in the province.

Other Problems/Opportunities

The new regional, local and commuter services agreement between Canada and the U.S. which provides for automatic approval of certain types of transborder air services opens up new opportunities for Ontario-based carriers. (Automatic approval for services using aircraft with 60 or fewer seats and joining a large urban centre in one country with any point, other than another large urban centre, within 400 miles in the other country.) By the end of 1985, 6 Ontario companies (Inter City Airways, Air Ontario, General Aerospace, Bradley Air Service, Soundair, and Austin Airways) had applied for and received approval to operate 8 routes in total.

Opportunities exist for developing and marketing the counsulting expertise developed in the TTC and within the Goods Distribution Office of MTC. The TTC has been marketing its know-how for the past five years through its subsidiary Toronto Transit Consultants. MTC has established a small consulting group with regional offices in Timmins and Thunder Bay to provide assistance to small business firms which experience transportation/distribution problems. The requests for assistance are channelled to the consulting group through its regional offices or the Small Business Division of MITT. In addition, this consulting group has undertaken plant location studies for foreign companies considering establishing facilities in Ontario.

Opportunities and potential problems exist in the passenger rail sector. The Scrivener task force on provincial rail policy (January 1981) suggested that an aging population with more leisure time and greater financial resources could create new opportunities for passenger rail services. The task force also cited the need for improved passenger rail service between Canada and the U.S.: "Overseas tourists, accustomed to superb trans-border rail passenger service throughout Europe, now find it extremely inconvenient to combine rail travel in the U.S. with rail travel in Ontario." Under the new VIA rail policy, with its two-year tests for the viability of specific routes, the government of Ontario may be faced by early 1989 with a decision whether to subsidize some or all of the routes that do not pass the test or to have them abandoned.

TRADE

Interprovincial
Air Transportation

In 1983, 7 Ontario cities (Toronto, Ottawa, Thunder Bay, Windsor, London, Sault Ste. Marie and Sudbury) ranked among the 25 largest Canadian cities in terms of the number of passengers taking domestic journeys. Toronto ranked at the top. Altogether, these 7 cities accounted for 29% of all domestic journeys. Among the 100 largest Canadian cities, 17 were Ontario cities. Not all of these cities had direct service to cities in other provinces. With the exception of Toronto, Ottawa, Thunder Bay and Hamilton, passengers to or from the other Ontario cities had to connect in one of the first three cities in order to travel from or to another province.

Of the 5 level I carriers in Canada, only Wardair can be considered to be an Ontario-based carrier. It ranks fourth in terms of revenues, lagging far behind Air Canada and CP Air. In 1984, Wardair spent $27 million on the maintenance of flight equipment. This represented only 6.5% of the total of such expenditures by all level I Canadian carriers. Very little of the maintenance work of the other carriers was done in Ontario. Among levels III, IV and V carriers, Ontario-based carriers spent $31.7 million on the maintenance of flight equipment (20.7% of the total expenditures of levels III, IV and V carriers). These numbers basically show that Ontario generates a high proportion of traffic and passenger revenues, but a significant proportion of these revenues flow out of the province to support head office and maintenance staffs in other provinces.

Marine Transportation

In 1984, Ontario ports handled 32% of all domestic (port-to-port) cargo in Canada. Eleven Ontario ports ranked among the 50 largest in Canada in terms of cargo tonnes loaded and unloaded. Thunder Bay was the largest in Canada, handling approximately 15% of all domestic cargo. Fifty-eight per cent of the cargo tonnes loaded in Ontario ports were unloaded at a port in another province or territory. Thirty per cent of the cargo tonnes unloaded at Ontario ports were loaded at a port elsewhere in Canada. Nine of the 15 Canadian, Great Lakes fleets were Ontario-based in 1984.

Truck Transportation

In 1983, Ontario-based motor carriers of freight and household goods earned revenues of $554 million (24.6% of their total revenues) from the carriage of goods between Ontario and other provinces.

Rail Transportation

Twenty-six per cent of the total freight revenues earned by both CN and CP were derived from shipments that originated in Ontario. Sixty-five per cent of these revenues were derived from shipments from Ontario to other parts of Canada. CN and CP earned an additional 18% of their total freight revenues from shipments destined to Ontario. Sixty per cent of these revenues were derived from shipments originating in some other part of Canada.

International

Overview

In 1984, Canada ranked 17th among all the countries in the world in terms of the value of shipment exports, and 20th in terms of shipment imports. In the category "other transportation services", Canada did not rank among the top 25 countries in either exports or imports.

In 1985, Canada's freight and shipping service exports totalled $4.5 billion, while the imports totalled $4.3 billion, generating a surplus of $190 million. The distribution of the freight and shipping service exports by region was as follows: U.S. - 54%; EEC - 15%; Japan - 9%; other countries - 22%. Interestingly, freight and shipping exports as a proportion of Canada's total merchandise exports and imports declined from 3.6% in 1971 to 2.0% in 1985. This same trend is apparent for freight and shipping imports as a proportion of merchandise exports and imports (3.6% to 1.9%) and for both these ratios for trade with the U.S. only (exports - 2.8% to 1.4%; imports - 2.6% to 1.6%). The trends suggest that transportation costs have become a less significant cost factor in international trade.

Rules Governing Transborder Trade in Transportation

Air transportation: The U.S. requires that 75% of the voting shares of a commercial air service be owned by U.S. citizens and that at least 2/3 of the directors be U.S. citizens. A Bilateral Air Agreement with the U.S. determines the U.S.-Canada routes that can be operated directly and the Canadian and U.S. carriers that can operate the service. The agreement deals with passenger and air cargo jet services between major urban centres.

Marine transportation: Coastal shipping in Canada and the U.S. is regulated by the Canadian Shipping Act and the Jones Act respectively. Both acts restrict domestic trade (trade between any two ports in the same country) to ships employing domestic crews. The Jones Act also requires that the ships used in U.S. domestic trade be built in the U.S. and owned by Americans. The Canada Shipping Act permits the use of U.S. built ships in Canada's domestic trade (as long as a 25% duty is paid) and allows Americans to own Canadian shipping companies operating in Canada's domestic trade as long as Canadian crews are used.

Truck transportation: Ontario has reciprocity agreements with 38 U.S. states. This enables Ontario truckers to operate in these states without obtaining license plates from these states. Moreover, Ontario truckers can compete for business with U.S. truckers from points in the U.S. to points in Ontario and conversely. However, they cannot compete for business within the U.S., from a U.S. origin to a U.S. destination, unless licensed in the U.S. for this purpose. Likewise, neither can U.S. truckers compete for business within Ontario, unless licensed in Ontario to do this. To operate within the U.S. (i.e. between U.S. cities), truckers are required by the immigration laws to employ U.S. citizens. Similarly, to operate within Ontario, Canadian citizens must be employed.

Rail transportation: Canadian rail carriers operate in the U.S. directly and through subsidiaries. And some U.S. rail carriers operate in Canada. Canadian rail carriers enjoy some protection from competition from U.S. carriers moving cargo between two Canadian points through the U.S. by a customs tariff of up to 30% on certain of the goods moved in this way.

Bus transportation: Charter and tour operators are granted authority to operate both sides of the border only for transborder trips originating in the other country. In other words, U.S. companies cannot operate charters between two Canadian points, and similarly, Canadian companies cannot operate charters between two U.S. points.

Transborder Trade

Air transportation: Transborder services are available only at the Toronto and Ottawa airports in Ontario. In 1982, 31% of passengers enplaned or deplaned at the Pearson International Airport and 7% of the passengers at the Ottawa airport were on transborder flights. In 1984, Canadians comprised 60% of the passengers on transborder flights into or out of Ontario. But only 47% of the passengers on these transborder flights used Canadian carriers. The U.S. airlines have a distinct competitive advantage in attracting Canadian passengers because of their complex route networks in the U.S.

The deregulation of air cargo services in the U.S. has put Canadian airports at a competitive disadvantage. Thus, carriers and forwarders truck 23% of the air freight sent from the Toronto region to airports other than Pearson International to be sent by air to their final destination. This compares with trucking rates of 10% for Chicago and 8% for New York. Freight forwarders truck freight to other airports in order to seek out the cost and service alternatives which best meet their clients' needs.

Marine transportation: U.S. shipping companies, operating as captive carriers, built specialized ore carriers. Canadian shipping companies operated as common carriers, with the exception of the fleets owned by the oil companies, and built multi-purpose vessels. Thus, the Canadian shipping industry has built maximum "Seaway size" ocean vessels that can carry cargo through the Seaway and beyond the Great Lakes. The much larger ships built and operated by the U.S. fleets are locked into the Great Lakes west of the Welland Canal system of locks. Thus, the U.S. fleet is primarily engaged in shipping between U.S. ports, while the Canadian fleet dominates international trade to and from Great Lakes ports in both Canada and the U.S.

Truck transportation: Ontario-based motor carriers received $433 million in revenues (19% of their total revenues in 1983) for the carriage of goods between Canada and the U.S. Bernard Jones, in a report submitted to the Ontario Highway Transport Board, pointed out that in 1980 the U.S. had a favourable balance of trade in truck transportation services. The deregulation of the trucking industry in the U.S. has exacerbated the trade balance for Canada as U.S. rates have become more competitive and transborder traffic is being diverted to U.S. border points for transhipment to U.S. destinations.

Rail transportation: In 1983, CN and CP received revenues of $131.6

million for freight shipments originating in Ontario and destined for U.S. points, and $66 million for freight shipments originating in the U.S. and destined for Ontario. The preliminary report of the CTC inquiry into the effects of U.S. rail deregulation noted that in 1981, 27% of all merchandise exports from Ontario to the U.S. were transported by rail. There is little transborder traffic in passenger services since there is only one remaining passenger service directly linking Ontario with the U.S.: Toronto-Hamilton-Buffalo.

REGULATORY ENVIRONMENT

Overview of Regulation

The regulation of air, rail and marine transport and inter-provincial commodity pipelines is the responsibility of the CTC, a regulatory agency established in 1967 by the National Transportation Act (NTA). The CTC has very limited powers with respect to extra-provincial motor vehicle transport since the section of the NTA that would have given the federal government direct control was never proclaimed. In other words, federal authority has been delegated to provincial highway transport boards. Inter-city bus services are regulated by the provinces and the provinces also have responsibility over commuter rail passenger services.

Regulation of Truck Transportation

The Public Commercial Vehicles Act establishes the regulatory framework for the for-hire trucking industry in Ontario. In order to operate in this industry, an individual must apply for and receive a license. The licensing requirment enables the government to restrict entry of unfit companies and prevent excessive competition from threatening the viability of the industry. The licences also outline and demarcate the services to be provided. Under this act, a prospective licensee must demonstrate public convenience and/or necessity for the particular service for which the license is being sought. This test puts the onus on the prospective licensee.

Trucking regulations vary by province. In February 1985, a "Memorandum of Understanding Respecting a Federal-Provincial-Territorial Agreement on the Economic and Administrative Regulation of Truck Transport" was drawn up, approved and signed by all the parties except Quebec. However, to date no provincial government has implemented the provisions of the agreement.

Regulation of Bus Transportation

Since routes off the Windsor-Montreal corridor are barely profitable, and most rural routes are unprofitable, the government of Ontario regulates entry into charter operations and the profitable inter-city routes along the corridor in order to maintain a system of cross-subsidization . That is, competition in the profitable segments of the industry is deliberately restricted, but in return the bus companies, given licenses to operate charters or line routes along the corridor, are required to provide scheduled service in designated areas off the corridor. Hence, part of the profits from the profitable segments are used to subsidize the unprofitable operations. The regulations also provide for a review process for rates, but according to a MTC official in the inter-city bus office, the review process is superficial at best for very few rates have ever been rejected.

Regulation of Commuter Rail

The province has the responsibility for regulating, funding and operating commuter rail services. The province has responsibility for urban and regional planning. The planning documents that are prepared set out urban boundaries and these documents in turn are used for determining what constitutes a commuter service as distinct from an inter-city service which is the responsibility of the federal government through VIA.

Regulation of Marine Transportation

The NTA empowers the CTC to approve the licensing of marine carriers under the public convenience and necessity test and regulate rates. However, all Canadian vessels on the Great Lakes are exempt from these regulations, with the exception of non-bulk freight vessels of 500 gross registered tonnage or more. The CTC is also involved in regulating and administering the temporary entry of foreign and non-duty paid vessels wishing to work in Canadian waters. But, by and large, the Commons standing committee on transportation was able to conclude that of "all the modes of transport in Canada, marine transportation has been the least regulated."

Regulation of Air Transportation

Regulation of air transportation is a federal government responsibility. In May 1984 a new air policy was introduced that resulted in a marked relaxation of regulation of air transportation in southern Canada. The highlights of the policy include: elimination of the roles of designated national, regional and charter carriers; removal of existing license restrictions; new and less restrictive rules for entry and exit; reduced control of fares; and promotion of new services to Mirabel and Hamilton airports.

GOVERNMENT ASSISTANCE

The government of Ontario annually spends hundreds of millions of dollars for the support and development of the transportation infrastructure and for direct subsidies. According to the 1984-85 estimates, MTC budgeted the following amounts for infrastructure and subsidies:

- provincial highways: design, capital construction and maintenance - $466.4 million;
- provincial transit program: transfer payments to Toronto Area Transit Operating Authority for capital and construction, operations and GO-ALRT project - $95 million;
- transfer payments for municipal airport construction and maintenance - $2.6 million;
- municipal transit program: transfer payments for capital and construction and operations - $285.8 million; and
- municipal roads program: capital construction and maintenance - $514.5 million.

Among the major recipients of subsidies from the provincial government are the following: GO Transit ($63.7 million in 1985); TTC (operating subsidy of $61 million in 1984); Ontario Northland Transportation Commission ($21.6 million in 1984, including $3.1 million for norOntair air services).

The province provides funding to support 70 airports (see table 5 for a list). In addition, the federal government owns and operates 14 airports in Ontario, and subsidizes another 9 in the province. The federal government also provided VIA Rail with $614 million in subsidies in 1985 to cover the company's operating losses from passenger rail services throughout Canada.

Finally, MTC maintains a consulting group that provides assistance, at no cost, on transportation and distribution problems to small and medium sized Ontario companies.

GOVERNMENT POLICY PROPOSALS

Freedom to Move

In July 1985, the federal minister of transportation released a position paper entitled "Freedom to Move - a framework for transportation reform". According to the Honourable Don Mazankowski, Federal Minister of Transport, the proposed changes would benefit shippers and the travelling public by promoting flexibility, innovation and competitiveness. The proposed new policy for the regulation of transportation would be based on the following principles: greater reliance on competition and market forces; direct support for transportation services that are considered to be in the public interest although not economically viable, and assistance for those who might suffer serious economic dislocation under the new regulatory regime.

Among the more specific proposals were the following:

- Air transportation:
    - entry to any class of domestic commercial air service will be governed by a fit, willing and able requirement;
    - exit from any service will only require advance notice;
    - reduction of regulations on international routes will be pursued through bilateral negotiations.
- Railway freight:
    - railways will be allowed to enter into confidential contracts with, and make rebates to, shippers for all domestic, overseas and transborder traffic (exclusive of grain shipments);
    - rules fixing maximum rates for captive shippers will be repealed.

- Extraprovincial trucking:
  - the Motor Vehicle Transport Act will be revised to reflect the regulatory reforms agreed to by the federal and provincial ministers of transport in the February 1985 memorandum of understanding.

- Marine transportation:
  - the Shipping Conferences Exemption Act will be revised to allow individual conference members to enter into confidential negotiated service contracts with shippers;

  - the Canada Shipping Act will be revised to reserve the coasting trade for Canadian ships and to extend the jurisdiction of the Act to at least 200 nautical miles.

- Mergers and acquisitions:
  - the acquistition of control by foreign interests will be subject to review under the Investment Canada Act.

With regard to this issue of foreign takeovers of Canadian transportation companies, the Honourable Don Mazankowski, federal Minister of Transport stated in a speech to the Ontario Trucking Association (November 1985) that: "Canada benefits from having a strong domestically-controlled transportation sector. We want to maintain that strength. Other nations have not hesitated to protect ownership of vital industries such as transportation. I can assure you that the legislation stemming from "Freedom to Move" will take this national interest into account".

The position of the government of Ontario appears to have been set out in an October 1985 paper entitled "Submission of the province of Ontario with respect to 'Freedom to Move'". According to this paper, the government of Ontario supports the principles and direction of the "Freedom to Move" paper subject to the following areas requiring clarification and resolution:

- a complementary statement outlining the federal government's policy approach with respect to surface passenger transportation and air cargo transportation (two areas not addressed in the "Freedo to Move" paper);

- clarification of the implementation of the direct subsidy system especially for remote area services;
- implied federal cost recovery measures for federally-supported infrastructure and ancillary services;
- mechanism for ongoing consultations with the provinces;
- safeguards against predatory pricing;
- clarification of federal plans to address employment losses that may occur;
- provincial government role in regulation of extraprovincial trucking; and
- devolution of federal responsibilities to the provinces and the financial implications.

Table 1

Employment, by Transportation Sector, Ontario, 1985

Sector	Number (000s)	% Of Canadian Industry (%)	% of Total Ontario Employment (%)
Transportation	147.4	31.5	3.9
Air transportation (501)*	11.5	24.4	0.3
Railway (503)	24.1	25.4	0.6
Water (504)	2.7	16.6	0.1
Truck (506/7)	37.0	33.9	1.0
Urban transit (509)	15.8	42.7	0.4
Highway and bridge (516)	19.5	29.7	0.5

* SIC number

Source: Statistics Canada, Employment and Earnings, cat. 72-002.

Table 2

Foreign Ownership, by Transportation Sector, Ontario, 1983

Sector	% of Firms*		% of FYE Employees*	
	O	C	O	C
Air	2.0	0.9	-	1.4
Railway	20.0	16.7	2.0	1.7
Water	12.3	5.5	10.9	13.6
Truck	1.1	0.4	17.5	12.5
Bus	4.8	2.9	-	27.0
Urban transit	4.2	1.4	-	-
Miscellaneous services	1.2	0.8	6.1	6.4

* Proportion controlled by foreign firms.

C: All of Canada.

O: Ontario only.

Source: Statistics Canada, Special Tabulations.

Table 3

Changes in FYE Employment, by Transportation Sector, Ontario, 1978-83

Sector	Δ FYE Ontario	%Δ FYE O	 C
Air	1179	9.5	0.0
Services incidental to air	-400	-33.4	-27.2
Railway	-6033	-17.2	-15.5
Water	-148	-3.5	-3.5
Services incidental to water	-1134	-42.0	-16.7
Truck	-6189	-14.7	-10.2
Bus	[illegible]	-36.2	-16.9
Urban transit	1795	13.8	31.5
Highway and bridge	25	7.8	-44.4
Miscellaneous services	-70	-0.6	4.4
Other transportation	3172	34.1	13.0

Source: See Table 2.

Table 4

Birth and Death Rates, by Transportation Sector, Ontario, 1978-83

Sector	Birth Rate (%)	Death Rate (%)	% of 1983 FYE Employees in New Firms
Air	28.0	46.7	3.0
Services incidental to air	52.3	57.1	12.2
Railway	30.0	27.6	0.1
Water	28.4	50.4	2.3
Services incidental to water	20.3	49.0	3.2
Truck	43.2	50.8	7.3
Bus	21.4	45.0	1.0
Urban transit	16.7	25.9	3.3
Highway and bridge	49.3	59.8	13.0
Miscellaneous services	45.1	36.6	23.3
Other transportation	26.6	32.7	14.2

Source: See Table 2.

EXPORT OPPORTUNITIES FOR ONTARIO SERVICE SECTOR

EXPERTISE IN THE ONTARIO PRIVATE SERVICE SECTOR APPLICABLE TO FOREIGN TRADE

Developing countries frequently lack experienced managers with the expertise to make optimal use of natural resources and to deal with the problems of rapidly growing cities where citizens with increased education seek swift and substantial improvement in the quality of life.

Consequently, the civil services in almost all developing countries can benefit from outside assistance.

There is also room for Ontario in the private sector in many developing countries. But, it is often the case that finding the right niches to exploit in these markets takes time because success depends on gaining local experience.

To gain local experience at least cost, it is usually prudent to seek work that is funded by development aid agencies such as C.I.D.A., the World Bank Group, the U.N., W.H.O., F.A.O., etc. in a chosen target market. This work is most likely to be in the public sector.

A development aid project provides the advantages of reliability of payment while giving an opportunity of examining the local market. Furthermore, it presents the prospect of using Ontario Government resources to reinforce Ontario private companies in performing public services tasks. This addition of Ontario Government expertise is likely to enhance the chance of success of a bid for work with a development aid agency.

Following is a list of service-related jobs in the foreign public service area that could be performed by the Ontario private sector; some may require consortia of companies, individuals, laboratories and centres of learning:

Natural Resources:

Food Production: genetics; breeding; soil-crop optimization; access to markets (roads, rail, shipping, etc.); shelf life extension (chemicals, irradiation, refrigeration); fertilizer and pesticides management; economics; laboratory services; quality control; storage; remote sensing applications; fish farming; veterinary services; food inspection; slaughter; rendering; food preparation; water supply; waste water management; manure management; irrigation; desalination; dams; education and training.

Forestry: genetics; breeding; soil-tree optimization; access roads; access to markets (roads, rail, shipping, etc.); economics; laboratory services; quality control; remote sensing applications; re-forestation; saw mills; wood structures; pulp and paper; plywood and particle board technology; forest crop optimization; pesticides application; ground water management; irrigation; education and training; occupational health and safety; environmental assessment; financing and sales.

Mining: occupational health and safety; education and training; laboratory services; access roads; access to markets (roads, rail, shipping, etc.); economics; mines tailings; radio-active wastes; mine and mineral processing design; remote sensing; mineral resource exploration, education and exploration; market studies; financing and sales; mine rehabilitation; environmental assessment.

Good Order and Government:

Finance: tax options; tax collection; debt management; budgets; accounting practices; programs and planning options; land registration; banking; insurance; international law.

Infrastructure: traffic and parking control; transportation planning and operation; water and sewage management systems; solid waste systems; industrial waste disposal; public health services; hospitals; health care administration; office security; electrical generation and distribution; gas distribution; storm water control; roads, airports and harbours; environmental assessment; telecommunications; geographical information systems.

Education and Culture education and job training services; science centres; library information systems; radio and T.V. entertainment; radio and T.V. education and job training.

Emergency Services: fast-routing of emergency vehicles; communications networks.

PROSPECTS FOR SUPPLEMENTING THE EXPORT OF ONTARIO SERVICES FROM ONTARIO GOVERNMENT SOURCES

Ontario Hydro (Schedule 2 Agency of the Ontario Government):

Ontario Hydro's recent experience in work related to foreign countries comprises:

- Training of hydraulic operators and maintenance technicians; 1970 - 75, Iran.
- Commissioning nuclear power station, train operators, 1970 - 74, India.
- Planning and engineering, hydro-electric power, 1971 - 73, Nigeria.
- Commissioning, staff training, consulting services, 1971 - 76, Iran.
- Consulting and management of merger of power production, 1973 - 80, Nigeria.
- Advisory assistance, 1976 - 79, Iran.
- Commissioning hydro-electric power stations, train staff, 1976 - 79, Iran.
- Commissioning thermal power station, train operators, 1979 - 81, Venezuela.
- Preliminary environmental study for thermal power station, 1981, Venezuela.
- Commissioning nuclear reactor, train operators, 1980 - 84, Korea.
- Assist commissioning of nuclear power station, 1981 - 84, Argentina.
- Establish training school for power system staff and stores and procurement systems, 1981 - 85, Ghana.
- Establish training school for electrical distribution staff, 1981 - 84, Pakistan.
- Commissioning supervision, train operators, thermal power station, 1982 -86, Indonesia.
- Consulting services for rural electrification,, 1981 - 85, Kenya.
- Quality control of underground cable installation, 1984 - 85, Egypt.
- Advisory service manpower development, 1984 - 85, Turkey.
- Advisory services for energy options (with Ministry of Energy and York University), 1984 - 89, Kenya.
- Job training for transmission line maintenance, 1985 - 88, Pakistan.

Recent prospects including foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

. Training of thermal generating plant operators in the People's Republic of China, prospect; no links with private sector which has no expertise in training.

. Turn-key power generating station complete with operation and sales of power in Turkey, prospect, with Canrede.

Ontario Hydro's Expertise of Interest to the Export of Ontario Services:

Nuclear
- Radioactive waste mangement
- Nuclear fuels metallurgy
- Cobalt-60 production
- Tritium extraction and management
- Heavy water production
- Robotic equipment and remote inspection
- Decontamination systems
- Radiation protection
- Reactor training simulators

Conventional
- Coal burning technology
- Environmental control and strategies
- Meteorology and atmospheric processes
- Fly ash utilization
- Occupational health
- Training simulators and training
- Boiler tube analysis
- Vibration and seismic effects analysis
- Corrosion and metallurgy
- Design of thermal and hydro-power plants
- Mini - (less than 10 MW) water and fossil-fuel power plants
- Environmental assessment

Non-Conventional
- Pilot wind-powered energy sources
- Pilot solar-powered energy sources
- Plasma arcs and magneto-hydro dynamics

Others
- Low-level PCB decontamination
- High-voltage distribution
- Production and distribution control software
- Environmental control of heat and contamination in water
- Project management
- Laboratory analysis and research
- Rehabilitation of power facilities and equipment
- Computer-aided design
- Operations research
- Load analysis, load-switching and load management
- Reliability analysis
- Procurement and storage
- Energy economics
- Finance of power development

Ontario Hydro - Background on Export of Services

Ontario Hydro has a high reputation with its foreign customers. It is certainly one of the most respected electrical power authorities in the world, with an immense range of technical capabilities. It has a long and profitable history of export of power to the U.S.A. and has extended its export market to the developing world. However, its international presence is viewed by many in the Ontario private sector with considerable misgiving because it is seen as an Ontario government monopoly interfering in the market place, and offering the unfair advantages of size and government "comfort" to customers.

Hydro does not appear to have sought foreign service contracts aggressively prior to 1980. But when the rapid expansion of the thermal and nuclear power program that marked the 1970s came to an abrupt end, Hydro found itself with too many highly skilled technical staff on its payroll. While attrition and early retirement inducements could lessen the problem, they were not adequate for changed circumstances. This induced Hydro to seek new markets rather than lay people off.[1]

This culminated in the formation of the New Business Ventures Division early in 1984. This division is autonomous and it is intended to make a profit. These profits are intended to curb the rise in Hydro rates in Ontario. Thirty-five staff were dedicated to the division. It is interesting to contrast this complement with that of The Ontario International Corporation which has approximately half the number of staff.

Apart from making a profit, the division's aims are to expand the professional development of Hydro employees in key export areas; to help other Ontario and Canadian companies to generate sales and improve employment, impart trade intelligence and participate in joint ventures with them; and to transfer technology to private sector manufacturers.

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1. Present full-time staff number approximately 23,000. It has been estimated that 4,000 person-years per year are redundant to present demand. The maximum number full-time staff in the past was approximately 25,000. In addition, Hydro may employ as many as 5,000 temporary construction workers.

However, the Ontario private sector saw the New Business Ventures Division more as a serious competitive threat than as a help in foreign markets. From some private exporters' point of view, Hydro's priority appeared to be to reduce its own under-employment problem by finding new markets and, only when that was satisfied, would it assist the Ontario services companies.

The matter was resolved, (though not without lingering misgivings) by the signing of an agreement in 1984 between the Consulting Engineers of Ontario and Hydro. This guarantees areas of cooperation and an understanding that Hydro will not compete in foreign markets with the private sector.

From an interim report, it is understood that the income for 1985 is approximately $22 million with a $2 million profit. For 1984, of the 70 proposals made in 25 countries with a potential value of $100 million, 15 were joint ventures with Canadian companies. In that year, Hydro signed 20 contracts worth $10 million in 7 countries. Of these, 5 contracts are joint ventures with Canadian corporations.

At first sight, one gets the impression that Hydro has involved the private services sector in only 25% of its contracts in 1984. However, a more careful analysis indicates that 8 of the 20 projects involved training and commission or other tasks that are not performed by the private sector. Others resulted from direct invitations to bid from CIDA or foreign customers. These essentially preclude private sector participation.

An interesting question about Hydro deals with whether or not it has in-house skills in international finance and banking that can help the private sector to identify good financing packages for foreign projects. Hydro has considerable skills in financing in the North American market, and it is worth investigating if this ability has broader applications to developing countries.

The relationship between Hydro and the O.I.C. was enhanced when the immediate past-President, K. Littzen, approached the Ministry of Energy, the Consulting Engineers of Ontario and Hydro to remove competition between the private sector and Hydro in the foreign market. (This past-President was hired from Monenco consulting engineers, who specialize in domestic and foreign power plants.) Some of the O.I.C. staff felt that Hydro's best role in foreign markets lay in commissioning, training and high technology transfer under the project management of the private sector. This would permit the private sector access to local market intelligence and give it local "presence". Others felt that Hydro's best role lay in turn-key power stations in joint ventures with the private sector because these could provide large employment in Ontario. The main problem with the latter view was seen to be the difficulty that Canada seems to have in devising a good financial package for large foreign projects.

The implicit questions are, of course, whether or not the O.I.C. is to be the undisputed central service export agency for all parts of the Ontario Government; and, if it is, how deeply should the government go in its committment of financial, human and physical resources in support of the Ontario private sector service exporter. With regard to the Ministries, the answers seem fairly straightforward. But when it comes to Hydro and power production, difficult and still unresolved questions arise regarding the Ontario Government's role in foreign power stations worth billions of dollars.

The Ministry of Agriculture and Food

The Ministry's recent experience in foreign work comprises:

- Two veterinarians establishing an animal disease investigation center over a 6 year period, for CIDA, in Indonesia, presently proceeding.
- One agricultural engineer, soil erosion and conservation study, for CIDA, in Tanzania, early 1980's.
- Agronomists instructed on extension services, rural leadership, in Peru and China, in 1970's.
- Korean and Japanese students studying dairy science at Centralia College of Agricultural Technology.
- Foreign students studying artificial cattle insemination, associated with Ontario private export service, at Kemptville College of Agricultural Technology.

Following is a list of the recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation:

- Training students in dairy science at Centralia College (see above).
- Training students in artificial cattle insemination at Kemptville College (see above).
- The Ministry also conducts numerous foreign trade missions for the sale of agricultural produce.

The Ministry has developed expertise of interest to the export of Ontario services as follows: (Expertise is often closely linked to the University of Guelph and the Colleges of Agricultural Technology).

- Soil conservation and management, erosion control.
- Horticultural research and extension service.
- Agricultural land drainage, regulation and engineering.
- Energy economics in agriculture.
- Adult extension, rural organization, leadership and youth education.
- Swine, dairy and beef cattle research and production systems management.
- Forage, corn and soya bean crop production.

- Integrated agricultural pesticides technology development, management and laboratory services.
- Weed control strategies.
- Veterinary services, genetics, nutrition, extension and animal care.
- Education and training.
- applications.
- Plant tissue testing.
- Establishment of marketing boards.
- Etablishment of agricultural co-operatives.
- Animal and food inspection and laboratory services.

The Ministry of Agriculture and Food - Background on Export of Services

The Ministry's prime concern lies in helping the farmers to sell produce profitably. It has a market development branch with several offices in the U.S.A., one in London U.K., and it also makes promotional visits to Asia and S. America. It has not been very active in promoting agricultural services except as an added sales feature in the sale of bull semen, where an educational service in insemination practice is offered to foreign buyers, or in the sale of livestock, where a service of establishing the necessary buildings etc. is offered. However, the five colleges of agricultural technology are very interested in selling agricultural training to foreign students because they have the capacity and because budgets are tight.

Foreign agricultural services are provided by a small number of private agricultural specialist companies and two companies formed by the University of Guelph. (one deals with inter-university educational exchanges, the other with agriculture - but there is some overlapping). The reason for the smallness of the private sector lies in the fact that most communities in the world provide agriculture services very cheaply through the civil service.

The largest single portion of development aid funds is directed to agriculture (e.g. about 25% of the World Bank's annual disbursement of approximately $12 billion U.S.). It is doubtful if Ontario gets more than $5 million U.S. of this amount in any year.

By contrast, the Israelis and a consortium of American agricultural colleges and universities have been very successful.

The civil engineering consultants are now becoming interested in the agricultural sector because of the large allotment of development aid funds. Their entry is provided by water management in the form of dams, irrigation and wells. This is likely to make the trade in foreign agricultural services considerably more dynamic than in the past because they will bring aggressive salesmanship and project management experience that the Ministry and the University lack.

It is difficult to think of anything more important to developing countries than a sound agricultural industry. This suggests that government-to-government trade agreements between Ontario and customer nations are well worth exploring. Ontario could export technical, administrative and educational expertise as part of the agreement. The University of Guelph could provide the highly technical expertise and education; the private consultants could provide the project management and the engineering skills; the Ministry could provide the Ontario Government "comfort" and the training of technicians and administrators; and the O.I.C. could put the package together, help with the selection of trade opportunities and, if appropriate, be the prime contractor (subject to back-to-back guarantees from the private sector project managers).

The Ministry of the Attorney General

The Ministry's recent experience in work related to foreign countries comprises:

- The Ministry provided a Canadian delegate to a committee for the formation of an international treaty on abduction of children by parents and the transporting of them across international boundaries; the Netherlands, 1980's.
- The Ministry provided a member for the working group to the U.N. Commission on Human Rights for the formation of a treaty on the rights of the child, France, 1980's.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Constitutional law.
- Human rights legislation and enforcement.
- Rights of civil and public servants to engage in political activity.
- Securities legislation.
- Family property law.

The Ministry of the Attorney General - Background on Export of Services

No great effort has been made by governments to "sell" legislation to developing countries. However, one sometimes encounters legislation abroad that is ill-suited to a developing country's needs. For example, most countries have environmental laws that are equal in stringency to those that prevail in North America and Western Europe. While these impart a show of legal strength, there is rarely strict enforcement and the law tends to become a parody.

Malaysia, one of the more advanced of the developing nations, has a well-drafted law to control the use of pesticides, but it is not enforced and misuse of some dangerous substances is common. Sri Lanka banned the use of DDT in its mosquito control program and several hundred people died of malaria as a result. In both cases, the consequences and practical details of the laws had not been thought through.

It is recognized that law is sometimes made because of example or precedent set in more advanced jurisdictions. The two laws cited above are cases in point. This suggests that some developing countries might welcome an offer by the Ontario government to advise on proposed new laws because there is a good chance that Ontario's own recent development has caused us to encounter legislative needs similar to those in countries that are only now developing.

It is unlikely that this service can be 'sold' in the usual sense of the word, but if it were to be offered to carefully selected target market countries as a government-to-government gesture of goodwill, it could predispose the recipient countries favourably towards Ontario. Such an offer could be made during trade negotiations, particularly if it were presented by an Ontario Minister to a Minister of a developing nation. This form of promotion or marketing of Ontario is undoubtedly indirect but it can be made quite effective. For example, in the cited cases of pesticides legislation in Malaysia and Sri Lanka, if the Ontario Government had been asked for advice, the Ministries of Environment, Health and Labour and possibly others would have been involved. An extension of this possibility would be to offer the services of a private sector pesticides management company and medical practitioners, who might contribute their services for a fee.

This type of government-to-government trade in which "soft" services like law, education, new veterinary practices and tax administration may appear strange, when compared to the traditional "harder" services like waterworks design, remote sensing of forest resources and road maintenance. However, the needs of civil services in developing nations go far beyond traditional public works engineering and permeate the whole systems. Therefore, Ontario should look very carefully at all aspects of public administration for entry points for trade, and not remain satisfied with only the more obvious forms of services exports.

The Ministry of Consumer and Commercial Relations

The Ministry's recent experience in work related to foreign countries comprises:

- Expert attestation of pressure vessels' quality, visits to Germany, Italy, Mexico and Belgium.
- Nuclear reactor pressure vessel attestation visit to Romania (visit to Turkey possible if CANDU sale proceeds).
- The Ministry exhibited its advanced property mapping capabilities at an international trade show in Toronto in June 1986.
- Senior Egyptian government officials asked to see the Ministry's digitized property mapping capabilities (POLARIS), for land registration and taxation purposes, 1985.
- Inquiries about the Ministry's real estate regulations were received from the State of Victoria, Australia, 1983.
- The Ministry is continually in touch with the U.S.A. through its membership in the National Association of Real Estate Licence Law Officials and the National Land Council, a U.S. organization of land developers and state and provincial regulators. (There are no regulations governing real estate brokers in the U.K. or Europe).
- The Ministry has consulted with the States of New York, Connecticut and California with respect to motor vehicle repairs and sales.
- The Ministry hosted the 1984 International Conference on Film Regulations. Twenty countries out of 50 invited sent representatives.
- The Ministry exchanges film reports with Australia, Sweden, New Zealand and the U.K.
- The Ministry has met with Australia and the U.K. on travel regulations. The U.S.A. does not have travel legislation.
- Israel, the U.K., Australia and the U.S. have discussed consumer protection legislation with the Ministry.
- The Ministry's membership in the International Society of Consumer Affairs Professionals provides the Ministry with links to other jurisdictions.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- International standard setting for lifting devices for handicapped.
- Inspection of elevating devices.
- Fuel safety.
- Regulation of underground storage tanks.

- Natural gas and propane fuel system standards for vehicles.
- Advanced digitized property mapping.
- Consumer protection for sales of used vehicles.
- Consumer protection for sales of real estate.

The Ministry of Consumer and Commercial Relations - Background on Export Services

The Ministry's foreign associations have largely been with countries with well-developed infrastructures and comparable technologies. However, there are some major sectors of expertise that could prove to be valuable in export trade.

The first is in the area of natural gas and propane fuel systems standards in motor vehicles. Recent work at the Ministries of Energy and, more especially, Transportation and Communications suggests that conversion to natural gas or propane fuels can sometimes provide economic advantages over gasoline or diesel oil. However, conversions must be conducted carefully to ensure safety. The Ministry has codified how this should be done.

The economic advantages of the use of natural gas or propane usually arise in fleet operations of short haul buses and taxis, but the economies vary widely from situation to situation. Costs of gasoline and diesel oil, conversion costs, operating costs must all be considered. However, there is another factor of growing importance in many large cities in developing countries which may tip the scales towards conversions. This is the increasing problem of air pollution, much of which is caused by poorly maintained diesel buses in what is often a badly organized transit system.

Air pollution caused by traffic is most noticeable in the rapidly growing cities of developing countries. It is generally conceded that despite the introduction of subway or rapid transit systems, buses in increasing numbers will remain the basic mode of transportation. If this is the case, conversion to cleaner fuels is important. However, cities such a Bangkok or Mexico City are much more likely to convert for economic reasons than they are for environmental reasons.

Nevertheless, businessmen from South Korea (following the lead taken in Tokyo to convert the taxis to propane) have made inquiries to the Ministries of Energy and of Transportation and Communications through the O.I.C. about fuel conversions for fleets in Seoul. Neither Japan or South Korea has indigenous fossil fuel, and the rapid social development in both countries makes both economics and air pollution important issues.

The capability in these Ministries to assist in the transfer of technology of safe and economic conversion is a subject that is worth exploring in government-to-government trade negotiations with selected countries.

The link with the private sector lies in the management of a conversion program, which could lead to assessing urban air pollution control strategies and to rationalizing bus route systems (often chaotic in developing countries).

An area of the Ministry's expertise that has drawn considerable attention lies in its computerized property mapping capability. Many countries, notably those in the Middle East, have considerable difficulty in devising and maintaining a modern property ownership file, and land tenure becomes clouded. This leads to disputes between rival claimants to land and to uncertainty about assessing land taxation.

The Ministry has recorded some parts of the province but the system has not yet been fully developed. Nevertheless, the concept is very appealing - probably even more appealing to countries where freehold, leasehold and squatters' rights can become very confused, particularly when problems become compounded by out-dated and inaccurate land surveys.

The O.I.C. has encouraged one company, MMM Surveys, to consider how the Ministry's capability in recording property boundaries can complement its expertise in modern land surveying techniques by providing a complete computerized export package. The Egyptian government is interested in the prospect.

The Ministries of Education, Colleges and Universities, and Skills Development

The Ministries' recent experience in work related to foreign countries comprises:

- A large number of delegations from many nations and all continents have recently visited the three education ministries. The annual average of formalized visits appears to be approximately 50.
- The Ontario International Corporation is involved in visits that hold prospects of foreign trade. In a typical year these number approximately 20. Most have originated in the Middle East and South East Asia. Others originate in North Africa, Peoples Republic of China, Nepal and Colombia.
- The Ministries make some reciprocal visits to foreign countries but visits likely to involve trade are conducted by the O.I.C. In a typical year 13 marketing visits related to educational services were made to most of the Middle East states as well as to Indonesia, Switzerland and Malaysia.

Present foreign projects, some linked with the Ontario private sector, comprise:

- For Bahrain, Gulf of Polytechnic Recruitment of 2 positions
- For Egypt, UTDC training study
- For Indonesia, business education review
- For Malaysia, fellowship training for Manpower Development
- For Malaysia, fellowships
- For Malaysia, fellowship for polytechnics
- For Nigeria, Delta Steel Study Tour
- For Nigeria, Industrial Development Fund Study Training
- For Saudi Arabia, Air Traffic Control Training
- For Bahrain, B.D.F. Technical School
- For Bahrain, Al-Jabria Study
- For Bahrain, Centre for Research and Studies
- For Bahrain, Gulf Polytechnic Recruitment
- For Oman, Placement of Students

- For Oman, Placement of Graduate students
- Qatar, Telecommunications training
- For Kuwait, KFAS Chemistry dictionary
- For Nigeria, BIDA and ILARO
- For Yeman, A.R., Polytechnic study
- For Bahrain, BDF documentary file
- For Indonesia, Vocational Training Centres
- For Oman, Sultan Qaboos University
- For Bahrain, Gulf Polytechnic Consultancy
- For Kuwait, Science Circus
- For Lebanon, Placement of students
- For Ethopia, W.B. Educ. 6
- For United Arab Emirates, Teaching Hospital
- For Bahrain, Education fellowship training
- For Oman, School assessment
- For Bahrain, Manpower directorate recruitment
- For Oman, Recruitment for Ministry of Social Affairs
- For Nepal, Fellowship training (ILO)

Total value of above projects
exceeds $120,000,000.

The Ministries' Expertise of Interest to the Export of Ontario Service:

- Technical and vocational training of all types.
- Skills development of all types.
- Computer-based instruction.

The Ministries of Education, Colleges and Universities, Skills Development

Since 1980, the export capability of these Ministries has been channeled through the former Ontario Educational Services Corporation and more recently, the O.I.C.

An export pattern is crystallising for the Ontario private sector around a few key services. These are consultation on curriculum development and related staff needs; on procurement for local ministries in the educational sector; on organization of local ministries in the educational sector; on planning and financial management of educational programs; on the introduction of modern educational tools e.g. computers in the class-room; and on specialized technical training and trades testing. There are also tasks such as finding staff for foreign schools and academic fellowship programs but these are of an ancillary nature.

A number of private sector consulting companies have become established in the Ontario educational services export market. These are closely linked to Ontario's twenty-two colleges of applied arts and technology which offer a very wide variety of courses and which quite aggressively seek students in the foreign markets in close cooperation with the O.I.C. and the private sector.

Ryerson and the University of Guelph have aggressively sought foreign assignments (see the note under the Ministry of Agriculture and Food dealing with the University of Guelph) and have collaborated successfully with the private sector consultants. As well, university professional staff acting as individuals, have formed joint ventures with private consultants to export expertise. (See, also, "A Note on Ontario Private Service Sector Export Linkages with Ontario Universities and Research Establishments").

In the notes on the Ministry of Agriculture and Food, it was observed that the development aid agencies allocated the largest single portion of their funds to agriculture. Although they do not fall within the jursidiction of the three Ministries discussed here, it is worth repeating that the five Colleges of Agricultural Technology are seeking fee-paying foreign students to help to meet tight budgets. These two facts suggests that some consideration might profitably be given to identifying a broader market for the colleges, with the help of the private sector expertise in educational services.

The development aid agencies have increasingly recognized the key role played by adequate training of staff in the proper operation of the public works that they fund.

This area of training, particularly the training of foreign public servants in the operation of public works, holds out the prospect of being a major contribution the Ontario government could make. It has been noted that most ministries have taken some part in training foreign staff, but few have made the effort to exploit the opportunities by introducing the visitors to Ontario exporters with kindred interests. The Ministries of Education, Colleges and Universities, Skills Development, Environment and Transportation and Communications are among the exceptions. An ambitious marketing plan involving both the public and private sectors could be well rewarded. Clearly, this would need a strong committment to make it work properly.

The greatest need in most developing countries is for technicians and for middle management in government. The community colleges and the Colleges of Agricultural Technology would appear to be admirably suited either to the importing of foreign students, or, in many cases, to the export of courses complete with teaching staff and also as recorded on video tape. As an example, the O.I.C. has suggested to the University of Doha, Qatar, that it should consider providing a course presently given by Lambton College, Sarnia, in the clean-up of oil spills. These greatly concern the Government of Qatar because of the risk of destruction of the shellfish industry due to oil spills in the Arabian Gulf, caused by the war between Iraq and Iran. Ontario is very well equipped and trained to deal with oil slicks in the Great Lakes.

Training skills in a number of other Ministries could be made available to the governments of developing nations. For example, some sources are the Ontario Police College, at Alymer, the Ontario Fire College, at Gravenhurst, and the Ministry of the Environment's water and sewage operator training facility, at Brampton.

Foreign government administators could be exchanged with appropriate staff in the Ontario government. This approach is very appealing to development aid agencies that increasingly espouse the idea of the "twinning" of developed and underdeveloped governments. To do this most advantageously for the foreign government and for Ontario requires considerable preparatory work.

For foreign civil servants coming to an Ontario Ministry to be trained, it is necessary that appropriate ministry staff be taught how to teach effectively. This task could be undertaken by one of the three Ministries under discussion. It is also important that each foreign student should be linked to an appropriate private sector exporter, who could act as a project manager for the training, and who could exploit any trade linkages with the student's country.

For Ontario civil servants going to a foreign country to exchange public services capability, it is even more important that they be taught how to teach effectively, and that they be linked to appropriate private sector exporters. The Ontario services exporter could act as project manager for the Ontario civil servant and could seek to exploit trade opportunities that arise from the exchange.

The Ministry of Energy

The Ministry's recent experience in work related to foreign countries comprises:

- Working with the Ministry of Industry, Trade and Technology on development prospects for small hydro-electric power plants in People's Republic of China.
- Providing one senior staff member to help develop energy policy in Kenya, CIDA, ongoing.
- Providing one senior staff member to act as executive advisor to the Minister of Energy of Tanzania, ongoing.
- Co-operating in fuels research and development with New York State Government.
- A member of staff has been invited to present a technical paper on alcohol as a fuel in France, 1986.
- Ministry held technical discussions with a delegation of Indian officials visiting Ontario industry about small hydro-electirc power plants, 1985.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

- A small group of Ontario experts from the private sector, University of York, Ontario Hydro and Ministry is advising Kenya on energy policy development.
- C.G.E. is pursuing prospects of sales of small hydro-electric power plants in the Caribbean and Central America, and the Ministry's expertise is being sought.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Modelling and forecasting of energy supply and demand.
- Policy and strategic planning of energy demands.
- Policy development of conventional and renewable energy sources.
- Small (less than 10 MW) hydro-electric energy sources development.

The Ministry of Energy - Background on Export of Services

There are several factors that determine the Ministry's ability to interact with the private service exporter who is interested in supplementing his foreign market capabilities. First, the Ministry's role is strictly as a policy-making and regulatory instrument of the Ontario government. (On the other hand, Ontario Hydro's role lies somewhere between a private utilities operation akin to, say, Detroit-Edison Co. in the USA, and a government ministry). The second is that the Ministry's experience is most applicable to providing advice in the very early decision-making stage in choosing energy options. This implies the prospect of early intelligence of forthcoming work in engineering services in countries that seek the Ministry's advice. The third is that the Ministry can impart the "comfort" associated with government-to-government dealings between a developing nation and the successfully developed community of Ontario. (By contrast, again, Ontario Hydro which is associated in the public mind, and in the Ontario service industry's mind, with all facets of energy, usually enters energy projects at a later stage).

It is this early entry into nascent foreign work which makes this Ministry's potential so interesting. Most foreign projects take several years to crystallize into work for the private sector, and experience has shown that the earlier one has intelligence of a prospect the better prepared one can be to place a successful bid.

The Ministry's potential role precedes Hydro's market entry. It occurs when foreign governments are weighing energy options. At this stage, these governments are looking for low cost assistance in the kind of experienced, dispassionate analysis that the public service of developed communities conduct. This kind of assistance requires a high degree of trust in the impartiality of the analyst. Few people would expect the private sector to be totally unbiased in this area of judgement. This accounts for the preference for the use of government analysts in fundamental policy making. If the analyst does his work well, there is a good chance that the foreign government will rely on his judgment in subsequent energy-related matters. This, of course, is the important entry point for the private sector who will want to know the general direction that policy is likely to take before starting the process of marketing, arranging local joint venture partnerships and commencing discussions with development aid agencies.

The Ministry of the Environment

The Ministry's recent experience in work related to foreign countries comprises:

- Training of water and sewage treatment operators for Ghana, Tanzania, Caribbean, Saudi Arabia and U.S.A. in 1980's.
- Secondment of engineers for establishing water quality laboratories in Caribbean, PAHO, 1970's.
- Secondment of technologist for advice on water supplies and water quality laboratories in Swaziland, CIDA, 1980's.
- Secondment of engineer for advice on water supplies and establishing training school in Haiti and Barbados, PAHO, 1980's.
- Ministry staff have been invited to transfer environmental technology in Greece, Peoples Republic of China, South Korea, W. Germany, Sweden, Norway, U.S.A., Portugal, and several communist-bloc European countries.
- Ministry representative to the Ontario International Corporation has promoted Ontario's environmental expertise in South Korea, Grenada, Barbados, Indonesia, Thailand, Malaysia and Singapore.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

- Training of sewage treatment plant operators for Saudi Arabia.
- Design, operate and train solid waste and storm drainage systems in Nigeria, World Bank.
- Design, operate (and train operators for) sewage and water services in South Korea, ADB.
- Management of urban solid wastes, in South Korea, promotion.
- Advice in establishment of training school for water treatment operators, WHO, Vietnam.
- Design, operate and train, water services in Cyprus.
- Design, operate and train water and sewage services, Indonesia.
- Design and train solid waste services, Indonesia.
- Design, operate and train water services in Egypt.
- Design, operate and train, small sewage services in Caribbean.

- Design, operate and train, water and sewage services in Caribbean.
- Management of agricultural pesticides use in Central Africa, Central America and Thailand.
- Modernization study of water and sewage management in Caribbean.
- Sixty members of the Ministry's water and sewage treatment operations staff and twenty municipal operations staff have expressed their interest in working with Ontario's private sector for limited periods in foreign countries.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Acid rain management.
- Air quality modelling, planning and abatement management of mobile and stationary sources.
- Long range transport of airborne contaminants.
- Atmospheric chemistry.
- Abatement program economics.
- Trace chemicals analysis.
- Laboratory productivity, reliability and control.
- Phytotoxicological analysis and interpretation.
- Environmental assessments.
- Analysis of trace chemicals in fish.
- Hydrogeological analysis of movement of chemical and microbiological contamination.
- Sewage management engineering and economics.
- Water services engineering and economics.
- Loss budgets and delivery efficiency of urban water supplies.
- Industrial wastes transportation and disposal control.
- Standards setting and legislation.
- Training and certification of water and sewage systems operators.
- Operation and maintenance of water and sewage systems.
- Contract research management.
- Pesticides control and management for all uses.

. Environmental legislation and enforcement techniques.

. Environmental toxicology (in concert with Ministries of Labour and Health).

. Spills control and clean-up.

The Ministry of the Environment - Background on Export of Services

The Ministry expertise lies in the following areas: air quality management, waste water mangement; water supply; solid waste management; pesticide management. It is the acknowledged leader in all these areas in Canada and it has world-class capabilities at least in the first two, and excellent capabilities in the remainder.

California and Ontario have been the most assiduous and probably the most successful air quality management agencies in North America. There are also sufficient numbers of people in the consulting engineering companies with industrial experience to specify the wide range of air pollution control equipment needed for a society just starting out in abatement programs.

Air pollution is very noticeable in most large cities of the developing world. However, it usually trails behind clean water supplies, sewage management and garbage management in environmental priorities. The more rapidly advancing communities (e.g. Seoul in South Korea) are beginning to deal with the question. Many cities with suspected serious health risks (e.g. Mexico City, Shanghai and Lima) are still making only tentative gestures. The Ontario private sector, with the encouragement of the O.I.C., has been making efforts to create joint ventures with local companies in Seoul and Lima to pursue development aid funded projects directed to air pollution control. However, the projects appear to have been postponed due to local funding difficulties. Nevertheless, these and expressions of interest from the People's Republic of China, which appears to be concerned with acid rain stemming from the burning of coal, indicate that the problems are being recognized and positive action is likely to ensue.

With rare exceptions (e.g. Singapore and Hong Kong) most cities in developing countries have no piped collection and treatment system for sewage (e.g. Jakarta and Bangkok); others have long outgrown their systems (e.g. Cairo). There is no shortage of engineering expertise to devise sewage management systems, though Ontario has probably one of the most complete systems in the world and a very experienced group of consulting engineers. The problem, of course, is cost.

It has recently been estimated that the replacement cost of the sewer system in Toronto exceeds $2,000 per capita. Even with due allowance for wage differences, it is most unlikely that many developing countries can afford the Noth American style of sanitary systems. (e.g. the annual GNP per capita in Indonesia is approximately $750, and in Thailand approximately $1,000).

The prevailing sewage management systems in large cities varies from chamber pot collection to pit privies and, for commercial buildings, small holding tanks with soakaways which discharge liquids into the ground. Most of this waste is prone to contaminate ground or surface waters from which drinking water supplies are drawn. This cross contamination with human waste is by far the most serious cause of death due to waterborne disease in the developing world. (WHO estimates 500 million diarrheal episodes per year in children under five years in Asia, Africa and South America, 3 to 4 per cent of these end in death).

The practical answer for most cities in developing countries is a mixture of management systems, piped sewage for the densely populated commercial area and simple pit privies for dwellings, with great care being paid to the protection of water supplies. Unfortunately, many consulting companies in North America and Europe have never fully understood this principle and continue to promote unaffordable sewers. However there appears to be a growing acceptance in Ontario that hygenic disposal into the ground in cities is quite possible.

The consulting engineers have been quick to recognize the benefit of the Ministry's training school for sewage and water systems operators in marketing their capabilities. One firm has been awarded a contract to train sewage treatment plant engineers and operators in Riyadh (project value minimum $550,000). Several other companies are submitting bids on sewage services in S. Korea (project value approximately $20,000,000), Indonesia (project value approximately $1,000,000). Grenada (project value $12,000,000). All of these will have elements of training. The Ministry's endorsement of the capabilities of the consultants and the invitation to use the training school (at cost, and costs to be paid to the Ontario Government) gives substantial "comfort" to the customer.

The development aid agencies recognize that it is no longer sufficient to finance the design and construction of public services, such as sewage and water systems. without the accompaniment of adequate training in operations and maintenace. This establishes an important link between the private sector engineer and the public sector operator. Recognizing this, 60 Ministry and 20 municipal staff indicated their interest in temporary overseas assignments. As explained elsewhere, recent changes in civil service rules of secondment should make such assignments more acceptable both to the Ministries and to the staff.

Because of the immediate threat to public health posed by contaminated water supplies occurring in many communities, the development aid agencies have placed a high priority on improving water services. However, there is a curious ambivalence about this task. While the aid agencies recognize that the causes of waterborne disease are overwhelmingly associated with pathogenic micro-organisms stemming from human waste, the concern voiced by senior public servants in developing countries centres on chemical contamination of water by pesticides and industrial wastes. Long association with childhood disease caused by pathogens seems to have produced apathy towards conventional water treatment; whereas the new (and usually much smaller) threat posed by chemical contamination has caused alarm in many developing nations.

Experience in developing nations reveals several areas in which public sector experience and expertise can be added to enhance the private sector's capability. The first lies in the training of operational and maintenance staff. The second lies in taxation, billing and collection systems to pay for water services. Although, this may appear simple routine, the inability to collect revenue for water supplies is a serious impediment to the improvement of water services in the Caribbean, West Africa and Malaysia. This holds out some prospect of trade for Ontario consulting engineers with the help of the Ministries of Revenue and Municipal Affairs. The third lies in the area of leak management. Water losses from leakage in distribution pipes is often very substantial (e.g. 40 per cent in Johor, Malaysia). This reduces revenue and increases costs. Both the Ministry and the private sector have expertise in leak detection and management. The World Bank has expressed interest in the use of Ministries' personnel and expertise in improving water services in these three areas.

The Ontario private sector is submitting bids on water services in Cyprus (project values exceeds $20 million) and in Egypt (project value exceeds $20 million), both of which involve training as well as design. A prospect in Trinidad (value of $100,000) involves training and advice given by an Ontario consultant with Ministry staff to the local environmental agency's operations and scientific staff. The decision is awaited. The private sector also asked the Ministry for the assignment for a few weeks of one of its training staff to help to establish a school for water treatment operators in Hanoi. The importance of such prospects does not lie in their size, but in establishing a presence in a prospective market that can be examined at small cost by the private sector. Such short-duration exploratory projects usually require small groups, two or three is typical, of mixed private and public professional experts. The United Nations and the Pan American Health Organization specialize in them. There is rarely any profit for companies but they are becoming increasingly interesting as a cheap means of providing market reconnaisance for the private sector and for the government.

The solid waste management prospects are becoming important because big city governments in developing nations are conscious of the unkempt appearance, bad smells and unattractiveness caused by uncollected garbage. For example the Vice-Governor of Jakarta has shown keen interest in the solid waste management practices in Metropolitan Toronto. He has invited the O.I.C. to discuss the system and he has sent two senior officials to observe practices at first hand.

An Ontario consulting engineering company has bid on a solid waste management and storm water drainage project in Lagos, Nigeria, partially funded by the World Bank. The total project value is $150 million U.S., the consultant's portion is approximately $4 million U.S. Several parts of the latter require the expertise of the Ministries of Environment, Revenue (taxation), Municipal Affairs (fiscal planning) and Transportation and Communications (vehicle fleet management)

A different approach is being taken in Seoul where an Ontario consulting engineer is being encouraged to establish a local joint venture to privatize the collection and disposal of wastes. Our strengths in this trade sector lie in engineering-management skills and our productivity.

The last general category of the Ministry's exportable support for the private sector lies in pesticides management. Pesticides are widely used in agriculture (value of worldwide annual sales is approximately $15 billion U.S.) in forestry, in mosquito control and in rodent control etc. Some of the management practices in the developing world are inefficient and dangerous to health and to the environment.

Encouraged by the government, an Ontario company was recently formed to provide a wide range of pesticides management services. The company has been touring several African countries under a $100,000 grant from CIDA to inspect pesticides practices. It is expected that other work in Central America and Thailand may follow.

As with most ministries, in foreign environmental projects the private consultant could provide project management and as much skill as possible; the Ministry should provide the Ontario Government "comfort" and specialized expertise and training, and the O.I.C. could put the package together, help with the selection of trade opportunities and, if appropriate, be the prime contractor (subject to full insurance guarantees from the private sector project manager).

Ministry of Health

The Ministry's recent experience of work related to foreign countries comprises:

- Meeting of Commonwealth Ministers of Health and related visits to health services in Toronto, 1983.
- Several medical officers of health have practical experience in tropical medicine, in South America, Africa and the Caribbean.
- The Ministry runs post-graduate fellowship training for foreign medical practitioners that could provide a basis for trade links in the medical arts sector.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

- Med Can International, an Ontario exporter of medical expertise, is promoting a range of services, largely in the Middle East. Part of the marketing thrust depends on the advice and administrative support and linkage with the Ministry.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Public health management and delivery of services.
- Health insurance services.
- Education and training of health workers (except physicians).
- Links with hospital administrators through O.H.A.
- Links with physicians through O.M.A.
- Integrated ambulance services (including service between remote communities and major city hospitals).

The Ministry of Health - Background on Export of Services

The emphasis of the domestic service of the Ministry rests heavily on the operation of health insurance, institutional health care and ancillary services. The traditional public health group is a comparatively small part of the whole. (The Public Health Branch has a complement of 71; the Ministry staff is approximately 12,000). It is in this group that we normally think of seeking expertise for export purposes.

There are, of course, many more people in local health units distributed throughout Ontario. However, the units are almost autonomous and have not been canvassed to determine whether or not there is interest in volunteering for foreign work if suitable opportunities arise via the private services sector.

While public health in almost all countries has vastly improved with the introduction of modern antibiotics, recent estimates by the World Health Organization indicate that more than 1,500 million people are affected at any one time by the following debilitating diseases: malaria - 800 million; trachoma - 500 million; snail fever -200 million; guinea worm - 40 million; river blindness - 30 million).

Many Ontario architects, engineers, management consultants and contractors have expertise applicable to health care. A few (e.g. FENCO) have formed divisions to specialize in hospital turn-key projects. The Ministry together with the Ministry of Industry, Trade and Technology and the O.I.C. produced a brochure that describes the health care services available in Ontario for export. One consortium of companies, Health Care Canada, promoted its skills very aggressively and was endorsed by the Ministry but to little avail so far. This consortium now appears to be dormant. Another company, Med Can International is promoting health services in the United Arab Emirates.

There has been, of course, a tendency to promote hospital and health care services in oil-rich Middle Eastern countries because of their rapid growth in public programs. Unfortunately, the collapse of oil production and prices has led to a market decline in growth rate. Projects are much harder to find than they were four or five years ago.

Nevertheless, there are one or two Ontario groups who are promoting the sale of emergency health services based on the rapid deployment of ambulances, training of para-medical staff, the provision of physicians etc. This looks rather promising.

The Ministry may have a very important part in helping to devise the training of para-medical staff, nurses and health-service administrators through its associations with O.H.A. and the O.M.A. It also has excellent applicable experience in integrated ambulance services because so many developing countries have the same problems of serving widely scattered communities that prevail in Northern Ontario.

The high reputation of the Ministry's success should provide a good entry point for government-to-government trade discussions and its endorsement of worthy companies in the private sector should be effective - particularly if Ministry staff or a Ministry overview can be assigned to help Ontario services exporters.

The Ministry of Housing

The Ministry's recent experience in work related to foreign countries comprises:

- Promotional visits to Europe and Japan to arouse interest in Ontario's "2 x 4" building techniques, management and administration.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Management of subsidized housing.
- Management of large mortgage portfolios.
- Housing standards for special needs housing (e.g. senior citizens).
- Training in Canadian house-building methods.
- Building codes (specially noteworthy are fire safety and renovation codes.)
- The Ministry is instrumental in a fundamental re-organization of the Ontario building industry which promises exportable management and technical services as well as the export of related goods and lumber.

The Ministry of Housing - Background on the Export of Services

The management of subsidized housing and large mortgage portfolios and housing standards for special needs, such as old age and the disabled, may well interest governments in socially advanced countries such as New Zealand, Australia and Singapore. They may even be of interest to countries that are involved with resettling population in rural areas e.g. the transmigration of Indonesians from Java, and the resettlement of Malaysians on former rubber estates. However, the range is likely to be restricted and these matters may be confined to discussion points in government-to-government trade negotiations. Nevertheless, they could be used to form the basis of an exchange of government staff that could pre-dispose a foreign nation towards trade with Ontario.

Building codes, especially those dealing with fire safety and renovation, fall into the same category. Ontario's new codes have achieved a reputation for their excellence, and could answer a need felt by many jurisdictions concerned with fire prevention and the refurbishing of old buildings. Government-to-government exchanges on the codes could provide an opportunity for Ontario's private engineering and architectural companies to extend foreign contacts.

As well, opportunities arise in the construction industry. The cost of modern single unit family dwellings in Western Europe, Japan, South Korea and countries in Southeast Asia is reaching prohibitive levels, partly due to the inflated cost of land in the large cities, and partly due to the management and style of construction.[1] This has caused an upsurge of interest in less expensive Canadian house-building techniques and standards in Japan and Western Europe. The Ontario construction industry is in a state of change, and the Ministry has taken a lead role in coordinating the many parts of the construction business with a view to streamlining and rationalizing the system.

It seems possible that building management may be an exportable service as long as Canadian-style dwellings are competitive in foreign markets. However, there is a fear that the present building boom in Ontario will blunt the desire to achieve better productivity in the building trades, and that the economy of wood-frame construction, for example, may continue to be eroded by the delays often experienced in the later stages of building.

The Ministry is hopeful that Ontario-style home building will find a niche in Europe and Japan (the latter country was noted to have poor personal productivity in the construction business despite its excellent production engineering capabilities) where they can sell "2 by 4" construction techniques. Naturally, it also hopes to sell lumber and home fittings, but the services market lies in the management of the building of homes, and, possibly, the broader field of home development.

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1. A modest home in Oslo, Norway, costing $400,000 would have an equivalent value of approximately $125,000 in Toronto. While direct comparisons are difficult, as a rough guide, equivalent costs of accommodation ratios for Singapore:Bogota:Seoul:The Hague:Ottawa are 2.5:3.0:4.0:2.0:1.0.

The Ministry of Labour

The Ministry's recent experience of work related to foreign countries comprises:

- Labour relations meetings in several European countries.
- Australian states' governments visited to obtain advice on occupational health legislation.
- Interchanges of information with Sweden on occupational health.
- Ministerial level visit from People's Republic China to discuss occupational health.
- Visit to People's Republic of China by Ministry manager to advise on radiation protection.
- Senior medical advisor from Singapore Government to discuss occupational health.
- Visits by senior Ministry official to WHO, ILO in Geneva; EEC in Brussels; occupational health services in Sweden.
- Ministry provided advice to Barbados to resolve asbestos problems.
- Ministry is holding meetings of international experts to define occupational health standards associated with nickel.
- Senior official visit from Arabian Gulf state to obtain advice on occupational health.

Ministry's Expertise of Interest to the Export of Ontario Services.

- Assessment of chemical hazards in the workplace.
- Legislation dealing with occupational health.
- Expertise in custom-designed preventative programs in occupational health to suit particular industrial conditions.
- Laboratory services to support occupational health programs.
- Radiation protection in mines, hospitals, industries etc.
- Links to complete education and training programs in association with occupational safety and health (includes extensive program designed for mines and pits.)
- Links with Council of Safety Associations and their associated expertise and advisory services.

The Ministry of Labour - Background on Export of Services

The Ministry serves a very sophisticated labour market in Ontario. Parts of the Ministry's structure such as the Workers Compensation Board and the Labour Policy Division may not be immediately important in the services market in developing nations. Nevertheless, the I.L.O. is moving towards the introduction of greater workers' protection partly to honour its obligation to worker security; and partly, (according to one expert) to narrow the gap in labour costs between developed and under-developed countries and, thereby, to reduce loss of jobs by developed nations. This may hasten the need for developing nations to establish the same kinds of worker protection instruments that prevail in Ontario.

The prospect of exporting occupational health and safety expertise is very real, and the exchanges with the People's Republic of China, Singapore and an Arab Gulf state seem to bear this out. Ontario government employees who have travelled in China have noted the interest in the health of workers in the oil refining and steel-making industries. Recent experience indicates that China is also concerned about its lack of radiation protection specialists, especially since it has recently joined the International Atomic Energy Agency.

An area that might be explored is how Ontario's new trade office in Singapore and its office in Nanjing (the base of the Province's twinning with Jiangsu in the People's Republic of China) may perceive the prospect of the direct or indirect sale of occupational health and safety expertise. There are now several small private companies in Ontario that have the skill to perform the necessary work - probably with the addition of some medical and laboratory expertise drawn from the Ministry.

The People's Republic of China is now becoming an interesting potential market because it has re-affirmed its national policy in labour matters by rejoining the ILO in 1982. (It had vacated its membership when Taiwan joined in the 1950s).

The Ministry of Labour is the centre of the Ontario Government's excellence in toxicology and is deeply involved in many questions of public health and environmental management as well as occupational health. This provides another link between the private exporters of services and the Ministry.

The Ministry's role could develop beyond being merely an "entry" item in trade discussions to become a substantial part of a private services trade package, in which government expertise is an important supplementary component that includes government "comfort" for the customer.

The Ministry of Municipal Affairs

The Ministry's recent experience in work related to foreign countries comprises:

- None.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

- An Ontario consultant is bidding on a solid waste and storm water management job in Lagos, Nigeria in which municipal debt management is an integral part, the Ministry's expertise will be sought if the consultant wins the contract.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Land use economcis, planning and development of new communities.
- Management of municipal debt.
- Municipal grants and subsidies.
- Assessment, tax roll, tax billing and collection.
- Allocation of municipal tax revenues.

The Ministry of Municipal Affairs - Background on Export of Services

The Ministry is not one that would readily be associated with the export of private sector services from Ontario. However, there is good reason to think that it could be very useful to foreign governments.

It has been pointed out most developing countries suffer greatly from a relatively inexperienced public service, particularly in middle management. The effect can be illustrated by the following example.

The island of Grenada, W.I., is served by a reasonably good water supply service provided by a public utilities commission. The commission is managed by one man and served by a group of unskilled labourers scattered throught the island. The need to supervise the staff effectively thwarts any concerted effort to plan the expansion of water services to meet the island's future needs. It has also thwarted the need to plan a maintenance program. Poor maintenance has led to leaks and water losses that are causing low pressure in the water mains. This has led to criticism of the water delivery service. Dissatisfied customers are loath to pay water bills. This situation is made more difficult by the fact that there is no proper system to determine whether water bills have been sent to customers or whether bills have been paid. The result has been that revenues have been inadequate to maintain a satisfactory system, and the water commission has had to request the island's government for supplementary funds for several years. The funds awarded have also been inadequate. The water service is now deteriorating quickly and giving rise to public health concerns. This condition suggests two needs. The first is for improvement in the water commission's engineering and planning; the second is for help in devising a water billing system that is adequate to operate and maintain the system and to expand it to meet new demands. In some ways, the second need may be the more pressing.

The Ministry would find no difficulty in advising the Government of Grenada how to set up and operate the necessary accounting systems, because it has a wealth of experience in such matters.

The deeper implication is that the Ministry's expertise could be combined with the expertise of water engineers from the private sector to resolve both the engineering and the financial problems in one package.

The British Government recently resolved a similar problem in St. Lucia. There are comparable water supply difficulties in Ghana, Malaysia and Jamaica which the World Bank hopes to solve in forthcoming projects.

The possibilities, are several: The Ministry's presence could impart government "comfort" to a foreign government. Projects could be contracted directly on a government-to-government basis without recourse to the normal world-wide bidding process. Furthermore, if the government-to-government relationship were to be built up over a period of time, it would give the Ontario private sector an opportunity to seek further employment in the local market.

The Ministry's land-use planning capability may be useful in specific tasks. For example, the city of Seoul, South Korea, has a population of approximately 10,500,000, and a rapidly improving economy. The present traffic density is one road vehicle per 30 persons, and it is expected that private vehicle sales will increase dramatically when the GNP per capita reaches 50 per cent of the value of a small car. This may take place in the mid-1990s. The main city streets are barely adequate to cope with present traffic. By comparison, traffic density in Toronto is approximately one road vehicle per 1.8 persons. If Seoul's traffic density increases and the population also increases (it is predicted to reach 18.5 million by the year 2000), questions arise about the steps that must be taken to provide adequate public transportation, control private transportation and parking for vehicles, as well as questions about when and how the city's population might be decentralized.

These are not hypothetical questions. They have already been briefly discussed with the Ministry of Transportation and Communications by a senior economist of the Korea Development Institute. Transportation and land-use planners in Ontario have successfully dealt with such questions, and our abilities could be a substantial discussion point in government-to-government trade negotiations.

The need for the Ministry's expertise to support export services will grow rapidly, especially in the area of advice and assistance in municipal organization and taxation management in developing nations, within the next 3 - 5 years. This will probably occur in the form of short-term assignments of staff to the Ontario private sector exporter.

The Ministry of Natural Resources

The Ministry's recent experience in work related to foreign countries comprises:

- Forest fire fighting training in People's Republic of China, CIDA, 1984 and continuing.
- Forest nursery management in People's Republic of China, 3 weeks, early 1980's.
- Sustained yield forest management in People's Republic of China, 4 weeks, early 1980.
- Remote sensing, landsat mapping of peat resources in Senegal, 1980's.
- Remote sensing, resource mapping in Thailand, CIDA, 1984.
- Remote sensing workshops in People's Republic of China, Thailand, Malaysia, IDRC, 1985.
- Remote sensing training courses in Toronto for scientists from Australia, Scotland, Germany, China, Hungary and Japan, 1983-84.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

- Remote sensing prospect in Thailand.
- Remote sensing prospect in Colombia.
- Remote sensing prospect in Peru.
- Forest products prospect in People's Republic of China.
- Remote bathmetry, promotional.
- Fast routing of emergency vehicles.
- Remote sensing project in Saudi Arabia.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Boreal forest management.
- Fire management of forests.
- Tree breeding.

- Forest use licencing and financial management.
- Tree nursery manangement.
- Forest pest control and pesticides management.
- Forest productivity and ecology.
- Soil-tree compatibility and characterization.
- Sewage treatment by enhanced vegetation evapo-transpiration.
- Advanced infra-red imaging aerial photography techniques.
- Advanced acquisition and processing of photographic images.
- Digitised and classical image interpretation experience for forest resources, mineral resources, water resources, agricultural production, land use classification, fishing area classification.
- Fish culture and hybridisation, freshwater.
- Fish hatchery and genetics.
- Planning and operation of large recreationl parks.
- Wildlife management.
- Rabies control.
- Flood emergency modelling, planning and control.

The Ministry of Natural Resources - Background on Export of Services

The Ministry has several areas of potential interest to the export of services that have not been exploited, and one of immediate interest that is being exploited. The last is the Ministry's Ontario Centre for Remote Sensing. (OCRS).

Remote sensing is a specialized photographic technique used for detecting and measuring objects from afar. A typical application is aerial or satellite photography of forests. The resulting images can be designed to reveal not only the numbers, size and height of trees but also distinguish the different species. This, of course, provides an efficient means of assessment of forest resources. There are many applications to agriculture, environment and mining sectors in this quickly growing area of high technology. The Ministry set up the OCRS to introduce the technology to the private sector and assure itself of remote sensing services for its own needs. Twenty-two small and medium-sized companies have since established a competence in this business in Ontario. All still look to OCRS for leadership in the latest technological developments, though the gap is beginning to close.

The OCRS has a very good international reputation for its technical quality, and its presence in an Ontario consortium is believed to have a beneficial effect on the chance of obtaining contracts. Probably its major attractions to foreign customers are its ability to train students and its ability to impart government-to-government "comfort" (at this stage of development of remote sensing, the main users are governments). A good deal of the work is funded by development aid agencies and the OCRS has been diligent in following leads with the private sector. However, the competition from B.C. and Quebec as well as other countries is fierce and the projects are often complicated by recipient countries having to postpone work in favour of more pressing tasks.

For example, in the remote sensing jobs only the job in Thailand is settled. Here the total project value is approximately $5 million and the OCRS portion is approximately $500,000. The scope and commencement dates of the projects in Peru, Colombia and Papua New Guinea have not been settled, and the project in Saudi Arabia may be directed to the U.S. (the U.S. guides the government of Saudi Arabia on all projects that could have strategic significance). On the other hand, the OCRS has received very recent enquiries about training of a manager of a remote sensing facility in the People's Republic of China, and about a survey, with an Ontario consultant, for Rwanda.

There is a related area of the Ministry's work that also is well developed and of high quality. This is its highly automated mapping capability that is the basis of geographical information systems. This latter system differs from remote sensing in two ways. First, it is much more dimensionally accurate than remote sensing; second, it cannot provide data such as distinguishing one tree species from another which is a simple routine in remote sensing.

Nevertheless, geographical information systems are at the root of all property management, land taxation, rights of tenure etc. Canada has been a world-leader in this area for many years. The former BILD program formed an Ontario consortium of 8 or 9 companies under the name Trillium. This group, with the support of the Ministry's capability should be a strong contender in international markets. However, its financial base apparently depends on domestic work. The modernization of the mapping of Northern Ontario is a key to its future. Whether modernization of the goegraphical information system will be performed, and whether it will be performed by the Ministry or by the private industry group is, it appears, not yet decided.

These capabilities in geographical information systems and in remote sensing raise the question of how best to exploit them in the foreign market. One direction that may be fruitful lies in government-to-government trade accords because the prime use of these services presently lies in the public sector.

With the exception of a CIDA project valued at $4.7 million undertaken by the Ministry (with some help from the Alberta and Canadian forestry services) to transfer forest fire fighting capability to the northern forests of the People's Republic of China, there has been limited activity in the exporting forestry services. There are several reasons for this. The most important is that the Ministry is uneasy about transferring technology to developing countries that might compete with our very important export trade in forest products. (This is a recurring theme in agriculture, and mining), The second is, of course, our lack of experience in non-boreal forestry. The third is that forestry has not been a big part of development aid budgets. It amounted to approximately 0.7% of the World Bank's disbursements up to 1982. The fourth is that the private sector consists of mainly small, one or two-person, companies because, like the agricultural industry, most of the professional expertise resides in government departments. These small companies may not always provide suitable private sector business partners. There are, of course, many professional foresters in the pulp and paper and logging industries but the large companies have shown little interest in exporting their expertise.

Despite these areas of concern, there may well be expertise that can be employed by the Ontario private sector without disrupting our forest products export business. In any event, it should be kept in mind that, if Ontario is reluctant to transfer forestry technology, there are plenty of other exporting countries that will be happy to do the job.

A fair portion of forestry work in the near future will be associated with production of brush wood lots to curb desertification in Africa, and to provide firewood for farm families. This suggests that forestry may play a small but important role in development projects aimed at the Sahel, which is causing great concern in many aid agencies.

That most aid projects in forestry should be managed by an experienced private sector services exporter, preferably, though not necessarily a forestry specialist. There will, of course, be a need for forestry specialists from the private sector, or from the universities. The Ministry can provide the Ontario Government "comfort" and the training of technicians and administrators. The O.I.C. can put the package together and, if necessary, act as the prime contractor with the usual insurances against failure provided by the project management company.

The other areas of this Ministry's expertise that could prove interesting lie in fresh water fish science and wildlife management. These are not likely to be as highly marketable as remote sensing, but they may appeal strongly to some foreign government departments and may be useful as discussion items in government-to-government negotiations.

The Ministry of Northern Affairs and Mines

The Ministry's recent experience in work related to foreign countries comprises:

- Economics study, energy sector, Bangladesh, World Bank, 1980's.
- Staff member is President-elect of International Association of Engineering Geology, will visit Europe and People's Republic of China.
- Fact-finding tour of peat deposits in Finland, 1980's.
- Participation in pre-cambrian geological survey of Germany, 1980's.
- Participation in mineral deposit exploration in U.S.A. and Australia, 1980's.
- Lecturing on Canada's position on strategic metals at U.S. National Defense University.
- Practical mining experience in Australia, South Africa, Zimbabwe, West Germany, and U.S.A.
- Staff member is Canadian delegate-observer to Law of the Sea meetings.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

- Mineralization survey and development of related government administration in Honduras.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Automated publication of geological data correlated with topographical mapping.
- Gold mineralization exploration models.
- Management of geoscience data.
- Ground and airborne electromagnetic sensing systems.
- Geochemistry of lake sediments affected by acid rain.
- Precambrian stratigraphy.
- Exploration methodology in quaternary terrain.

- Publications of world-wide interest on mineral policy background.
- Computer modelling of simulated mineral marketing.
- Sales of mines products.
- Computerized publication of Ontario's annual minerals production.
- Strategies for retarding population migrations from rural communities to urban centres.
- Development of local opportunities in remote communities.

Ministry of Northern Affairs and Mines - Background on Export of Services

A key area of the Ministry's expertise is its skills in the administration of mining.

This Ministry shares the apprehensions of the Ministry of Natural Resources' foresters and the Ministry of Agriculture and Food's farm production specialists. It is uneasy about giving technical assistance to countries that can undercut the price of Ontario minerals because of lower wages. The recent dumping of South American copper exemplifies the point.

On the other hand, it recognizes an obligation to the Ontario geophysical prospecting companies operating in the tough international market. On balance, if someone is going to use development aid funds to assess a country's mining potential, it might as well be an Ontario company.

One can conclude that there is good reservoir of understanding of foreign mining in the members of staff, but the Ministry itself has not been active in the export trade in services.

Another small but significant part of the Ministry's expertise lies in the knowledge of the Law of the Sea negotiations. The significance of this lies in determining when seabed mining of nodular mineral deposits can commence and what effect it may have on world mining patterns. The Indonesian government has maintained a strong interest in these discussions.

A large part of the Ministry's mining expertise of value to export markets rests in its automated information handling system. For example, it is a world leader in correlating topographical and geological maps. It is also very good at producing up-to-date information on mineral production.

It can be expected that development aid agencies will increasingly seek to link up inexperienced government mining departments in underdeveloped countries with counterparts in developed mining communities such as Ontario. The purpose of such projects is to put governmental administration of mining on a sound managerial footing. Most of the work can be performed by the Ontario private sector because of public sector-private sector combination in which most Ontario Government projects are conducted; however, some of it must be done by the Ministry, even if it is only to satisfy the customer's need for government "comfort".

The Ministry of the Solicitor General

The Ministry's recent experience in work related to foreign countries comprises:

- Training at the Ontario Police College of police from the Caribbean, ongoing.
- Review of administration and management of police force in Bermuda, 1980's.
- Negotiation team visit to Kuwait to market police training, 1984.
- Senior staff visited People's Republic of China to review fire-fighting capabilities, 1980's.
- Chinese student attending Fire Service College, ongoing.
- Visits by senior Australian fire service staff to discuss fire training, 1980's.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprise:

- Police training, Caribbean islands' police forces, at Ontario Police College.
- Police training for Kuwait police force.

The Ministry's Expertise of Interest for the Export of Ontario Services:

- Police training, general and specialist courses.
- Forensic laboratory analysis and interpretation.
- Fire service training, general and specialist courses.
- Fire investigation techniques.

The Ministry of the Solicitor General - Background on Export of Services

The Ministry has four areas of expertise that could be of interest in the export market.

The first, police training, has already proved to be successful in courses given to members of police forces from Cayman Island and Bermuda. However, this has not been a priority for the Ontario Police College at Aylmer because there have been few vacancies that could be made available for people outside the Province.

However, due to some deceleration of recruitment in the Ontario Provincial Police, the prospects for greater numbers of vacancies in the near future look considerably brighter. The College is well equipped and spacious (nine acres building complex with ample paved traffic study area on the property); in 1985 over 6,000 students attended. The college runs courses in basic and advanced police work for constables, in junior and intermediate command, and in specialized subjects such as fraud, identification, photography, traffic and several others. It also provides training courses for senior officers.

Police training is a very appealing entry point for government-to-government trade negotiations because it touches on the central issue of law and order in developing countries. At first glance police training does not appear to be readily associated with increasing exports of Ontario private services. However, there is a substantial Ontario industry in traffic signals and traffic engineering that readily fits in with the traffic control courses at the College. These links with the private sector and the College and with the Ministry of Transportation and Communications may raise considerable interest.

The second area of export interest stems from the excellence of the forensic laboratory capability. The potential lies in its use as an entry point in government-to-government trade discussions, in training of foreign specialists, and in advising on the design and equipping of comparable laboratories. Foreign visitors are impressed by the capabilities of the staff and the equipment, and it seems probable that a foreign market would be available if Ontario's laboratory services were properly packaged and sold through the private sector.

The last two areas involve fire service training and the associated area of fire investigation. A range of training courses in these subjects is available at the Ontario Fire College, Gravenhurst.

In some ways, fire services training has even more export potential than police training. One reason is that fire prevention and fire fighting tend to be skills that are universally applicable, whereas basic police training depends heavily on the law of the land. Because laws change from country to country, police training for foreign nationals is likely to be confined to specialist and advanced courses. A second reason is that Ontario has a well-developed commercial and industrial sector that is closely associated with supplying equipment to municipal fire services and permeates the system at all levels. This contrasts with police training where the principal link with the private sector is confined to traffic management.

Ontario companies specialize in public water distribution systems, sprinkler protection of buildings, hoses, pumps, hydrants, pipe, protective clothing and some very interesting new economical fire-fighting vehicles designed for use in remote communities with volunteer crews. It would be advantageous to introduce foreign fire services to the Ontario private sector suppliers of these relevant goods and services through the medium of the Ontario Fire College, where the links between successful fire fighting capability and proper equipment and services can be demonstrated.

The Ontario Fire College provides training in general and specialized subjects of the prevention, fighting and investigation of fires as well as in management and administration for municipal fire chiefs. It is one of the best equipped facilities in North America, and is equipped with a 100-bed residence. Tuition is provided by provincial and municipal experts and, to a lesser degree by experts from the private sector. The availability of course instructors dictates the calendar of courses. At present, the use of the College is approximately 70 per cent of its residential capacity. However, there are approximately 300 Ontario students waiting to attend courses. Therefore, if the College were to be used to train foreign students, more teaching staff would be required.

The range and content of the courses at the Ontario Police College and the Ontario Fire College suggest that the foreign market in student training could be examined. A plan to introduce the service could be developed and discussed with the appropriate staff of the Ontario private sector that may benefit from the links with foreign markets.

The Ministry of Transportation and Communications

The Ministry's recent experience of work related to foreign countries comprises:

- Secondment of 2 engineers for highway development in India, World Bank, late 1970's.
- Secondment of engineer for highways in Saudi Arabia, 1980.
- Secondment of engineer for highways in Indonesia, 1980-81.
- Secondment of engineer for highway study in Lebanon, 1983.
- Secondment of engineer for railway bridge in Bangladesh, 1985.
- Secondment of engineer for highways in Ghana, 1986.
- Loaned 1 engineer for erection of 2 Bailey Bridges in St. Vincent, W.I.
- Exchange program with Swedish Government on Highway construction and maintenance, 1986.
- Short-term visits sponsored by CIDA via Canadian Society of Civil Engineers to Pakistan, Egypt and India for transportation and technology transfer.
- Technology exchange conference in Japan on paving in cold climates, 1985.
- Minister level visits and conference on traffic and fleet management and road and bridge maintenance in Saudi Arabia, ongoing exchange.

Recent prospects and present foreign work linked with the Ontario private sector and conducted with the knowledge of the Ontario International Corporation comprises:

- Consortium of 16 Canadian companies actively encouraged by Ministry, pursuing traffic management tasks in Taiwan (some sales have already been made).
- Ontario companies, actively encouraged by Ministry, are submitting proposals on traffic weight control, traffic management, pavement maintenance, urban planning, transit management, fleet management, Ministry staff training exchanges in Saudi Arabia.
- A program (similar to the program developed in Saudi Arabia and described above) is now being developed in Jordan.
- Technical assistance for Ontario company by the Ministry of Industry, Trade and Technology, and the Ministry of Transportation and Communications for transit system proposal in central U.S.A.

- Technical assistance for Ontario company by the Ministry of Industry, Trade and Technology, the Ministry of Intergovernmental Affairs and the Ministry of Transportation and Communications for transit system in the People's Republic of China.

- Several private companies have requested the Ministry's expertise on transportation related proposals for Trinidad, Venezuela, Peru and Ghana.

The Ministry's Expertise of Interest to the Export of Ontario Services:

- Strategic planning of urban and inter-regional transportation.
- Roads, bridges and civil engineering works
  - contract administration systems;
  - engineering materials research and evaluation;
  - structural and highway design, specification and related computerized systems;
  - Ontario Bridge Code and Bridge Testing program and Technology;
  - maintenance planning and management, road patrol systems and winter hazard control programs;
  - research in pavement and bridge rehabilitation techniques.
- Public Transportation:
  - urban, commuter and inter-regional single and multimode transportation planning, modelling and development technology;
  - urban and freeway traffic management analysis, system design and development technology.
- Driver and Vehicle Registration:
  - regulatory program of computerised driver registration, performance and safety records.
- Construction equipment engineering.
- Vehicle fleet management and performance maintenance.
- Staff training in vehicle operation and maintenance skills.

The Ministry of Transportation and Communications - Background on Export of Services:

The Ministry is one of the world's most respected authorities on the design and management of roads and integrated transportation systems.

The Transportation Industry Office was formed about 2 and one-half years ago to help industry to develop machinery and ideas that could cut road operation costs in Ontario. For example, it has helped one company perfect a road asphalt recycling machine; it has helped another to produce improved vehicle weigh scales. These companies were encouraged to seek domestic and foreign sales for their products. Soon after the office was opened, the Govenment of Canada brought a Minister.level delegation of Saudi Arabs to the Ministry to discuss government administrative problems in road maintenance. The Ontario Minister of that time and his Saudi Arabian counterpart seemed to enjoy the experience and decided to maintain the relationship. This has fitted well with the sale of private sector expertise in road design and with the machinery developments in the Transportation Industry Office.

The Transportation Industry Office has a total complement of 5 people. Its time is divided roughly equally between domestic and foreign markets. A good deal of the foreign work is associated with helping industry with equipment development and sale.

A number of Ministry staff have foreign experience. This has been gained largely as a result of consultants seeking special expertise in the Ministry.

This Ministry can be one of the most productive for the Ontario service sector. Its widely acknowledged skills will provide the Ontario Government "comfort" and technology transfer to foreign customers.